



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

CITY OF BAY ST. LOUIS, MISSISSIPPI

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2003



**CITY OF BAY ST. LOUIS, MISSISSIPPI
ANNUAL FINANCIAL REPORT
TABLE OF CONTENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

	<u>Page(s)</u>
INTRODUCTORY SECTION	
Listing of Elected Officials	1
FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT	2
GENERAL PURPOSE FINANCIAL STATEMENTS	
<i>EXHIBIT A</i> Combined Balance Sheet - All Fund Types and Account Groups	3
<i>EXHIBIT B</i> Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds	4
<i>EXHIBIT C</i> Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - General Fund	5-8
<i>EXHIBIT D</i> Statement of Revenues, Expenses and Changes in Retained Earnings - Proprietary Fund Type - Utility Fund	9
<i>EXHIBIT E</i> Statement of Cash Flows - Proprietary Fund Type - Utility Fund	10-11
Notes to Financial Statements	12-33
COMBINING, INDIVIDUAL FUND AND ACCOUNT GROUP STATEMENTS	
GENERAL FUND	
<i>SCHEDULE 1-A</i> Balance Sheet	34
<i>SCHEDULE 1-B</i> Statement of Revenues, Expenditures and Changes in Fund Balance	35
CAPITAL PROJECTS FUNDS	
<i>SCHEDULE 2-A</i> Combining Balance Sheet	36
<i>SCHEDULE 2-B</i> Combining Statement of Revenues, Expenditures and Changes in Fund Balances	37

**CITY OF BAY ST. LOUIS, MISSISSIPPI
ANNUAL FINANCIAL REPORT
TABLE OF CONTENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

	<u>Page(s)</u>
ENTERPRISE FUND	
<i>SCHEDULE 3</i> Balance Sheet	38
FIDUCIARY FUNDS	
<i>SCHEDULE 4</i> Combining Balance Sheet	39
GENERAL FIXED ASSET ACCOUNT GROUP	
<i>SCHEDULE 5</i> Schedule of General Fixed Assets - By Source	40
GENERAL LONG-TERM DEBT ACCOUNT GROUP	
<i>SCHEDULE 6</i> Statement of General Long-Term Debt	41
OTHER SUPPLEMENTAL INFORMATION	
<i>SCHEDULE 7-A</i> Schedule Reconciling Original Ad Valorem Tax Rolls to Fund Collections	42
<i>SCHEDULE 7-B</i> Schedule of General Long-Term Debt	43
<i>SCHEDULE 7-C</i> Schedule of Enterprise Fund Bonds and Notes	44
<i>SCHEDULE 7-D</i> Schedule of Computation of Legal Debt Margin	45
<i>SCHEDULE 7-E</i> Schedule of Surety Bonds for Municipal Officials	46
REPORTS ON COMPLIANCE AND INTERNAL CONTROL	
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROLS OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	47-48
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	49-50

**CITY OF BAY ST. LOUIS, MISSISSIPPI
ANNUAL FINANCIAL REPORT
TABLE OF CONTENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

	<u>Page(s)</u>
SCHEDULE I	
Schedule of Expenditures of Federal Awards	51
Notes to the Schedule of Expenditures of Federal Awards	52
SCHEDULE II	
Schedule of Findings and Questioned Costs	53-57
Corrective Action Plan	58
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE OFFICE OF THE MISSISSIPPI STATE AUDITOR REQUIREMENTS	59-60

INTRODUCTORY SECTION

**CITY OF BAY ST. LOUIS, MISSISSIPPI
LISTING OF ELECTED OFFICIALS
AS OF SEPTEMBER 30, 2003**

Mayor	Edward A. Favre
Councilman – District 1	Doug Seal
Councilman – District 2	James C. Thriffiley, III
Councilman – District 3	Thomas Farve
Councilman – District 4	Robert Compretta
Councilman – At Large	William E. Taylor

APPOINTED OFFICIALS

City Clerk	Robert Parker
Comptroller	Raymond Farrish

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

August 20, 2004

The Members of the City
Council and the Honorable
Edward A. Favre
Bay St. Louis, Mississippi

We have audited the accompanying general purpose financial statements of the City of Bay St. Louis, Mississippi, as of and for the year ended September 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Bay St. Louis' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City of Bay St. Louis did not maintain an adequate inventory of or adequate subsidiary records documenting the existence, completeness, and valuation of the City's general fixed assets in accordance with accounting principles generally accepted in the United States of America. Due to the nature of the City's records, we were unable to satisfy ourselves as to the fair presentation of assets reported in the General Fixed Asset Account Group totaling \$13,575,728 as of September 30, 2003.

In our opinion, except for the effect on the general purpose financial statements of the matter described in the preceding paragraph, the aforementioned general purpose financial statements present fairly, in all material respects, the financial position of the City of Bay St. Louis, Mississippi as of September 30, 2003, and the results of its operations and cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated August 20, 2004, on our consideration of the City of Bay St. Louis, Mississippi's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed as Schedules 1 through 7 in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Bay St. Louis, Mississippi. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, except for the effect on the general purpose financial statements of the omission described in the preceding third paragraph, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.


ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

GENERAL PURPOSE FINANCIAL STATEMENTS

CITY OF BAY ST. LOUIS, MISSISSIPPI
COMBINED BALANCE SHEET - ALL FUND TYPES
AND ACCOUNT GROUPS
SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	Governmental Fund Types		Proprietary Fund Types
	General	Capital Projects	Enterprise Fund
ASSETS AND OTHER DEBITS			
ASSETS			
Cash and cash equivalents	\$ 555,791	\$ -	\$ 276,387
Receivables (net, where applicable, of allowance for doubtful accounts)			
Gaming fees	227,495	-	-
Sales taxes	117,588	-	-
Franchise taxes	76,887	-	-
Customer accounts	-	-	448,613
Other	7,391	-	128,396
Interest receivable	-	-	441
Due from other funds	57,742	-	92,404
Due from other governments	240,229	-	-
Prepaid expenses	71,711	-	41,667
Inventory	-	-	126,259
Restricted assets			
Cash and cash equivalents	-	1,975,075	634,057
Advances to other funds	-	-	283,136
Fixed assets (net, where applicable, of accumulated depreciation)	-	-	4,311,401
Debt issuance costs	-	-	70,520
OTHER DEBITS			
Amount to be provided for retirement of general long-term obligations	-	-	-
Total assets and other debits	<u>\$ 1,354,834</u>	<u>\$ 1,975,075</u>	<u>\$ 6,413,281</u>
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Bank overdraft	\$ -	\$ -	\$ -
Accounts payable	151,515	4,723	200,589
Other liabilities and accruals	53,040	-	-
Compensated absences payable	-	-	29,184
Accrued salaries	125,199	-	-
Due to other funds	93,998	-	48,818
Due to other governments	103,465	-	-
Advances from other funds	283,136	-	-
Deferred revenue	278,288	-	-
Payable from restricted assets			
Special obligation bonds payable	-	-	230,000
Interest payable	-	-	65,005
Customer deposits	-	-	292,501
Bonds, notes and leases payable	-	-	4,460,000
Total liabilities	<u>1,088,641</u>	<u>4,723</u>	<u>5,326,097</u>
FUND EQUITY			
Investment in general fixed assets	-	-	-
Retained earnings:			
Reserved for bond covenants	-	-	326,759
Unreserved	-	-	760,425
Fund balances:			
Reserved for encumbrances	25,167	-	-
Reserved for capital projects	-	1,970,352	-
Reserved for unemployment benefits	-	-	-
Unreserved	241,026	-	-
Total fund equity	<u>266,193</u>	<u>1,970,352</u>	<u>1,087,184</u>
Total liabilities and fund equity	<u>\$ 1,354,834</u>	<u>\$ 1,975,075</u>	<u>\$ 6,413,281</u>

Fiduciary Fund Types Trust and Agency	Account Groups		Totals (Memorandum Only)	
	General	General	2003	2002
	Fixed	Long-Term		
	Assets	Debt		
\$ 58,310	\$ -	\$ -	\$ 890,488	\$ 422,922
-	-	-	227,495	196,012
-	-	-	117,588	102,987
-	-	-	76,887	82,207
-	-	-	448,613	441,488
-	-	-	135,787	28,475
-	-	-	441	898
51,472	-	-	201,618	2,508,302
11,118	-	-	251,347	328,558
-	-	-	113,378	104,933
-	-	-	126,259	82,830
-	-	-	2,609,132	627,233
-	-	-	283,136	283,136
-	13,575,728	-	17,887,129	17,534,000
-	-	-	70,520	75,744
-	-	5,943,849	5,943,849	4,454,252
<u>\$ 120,900</u>	<u>\$ 13,575,728</u>	<u>\$ 5,943,849</u>	<u>\$ 29,383,667</u>	<u>\$ 27,273,977</u>
\$ -	\$ -	\$ -	\$ -	\$ 92,124
-	-	-	356,827	242,044
40,517	-	-	93,557	72,682
-	-	217,355	246,539	273,748
-	-	-	125,199	121,840
58,802	-	-	201,618	2,508,302
3,791	-	-	107,256	177,567
-	-	-	283,136	283,136
-	-	-	278,288	310,295
-	-	-	230,000	220,000
-	-	-	65,005	68,745
-	-	-	292,501	285,208
-	-	5,726,494	10,186,494	8,902,448
<u>103,110</u>	<u>-</u>	<u>5,943,849</u>	<u>12,466,420</u>	<u>13,558,139</u>
-	13,575,728	-	13,575,728	12,800,512
-	-	-	326,759	336,416
-	-	-	760,425	729,021
-	-	-	25,167	18,089
-	-	-	1,970,352	79,107
17,790	-	-	17,790	17,790
-	-	-	241,026	(265,097)
<u>17,790</u>	<u>13,575,728</u>	<u>-</u>	<u>16,917,247</u>	<u>13,715,838</u>
<u>\$ 120,900</u>	<u>\$ 13,575,728</u>	<u>\$ 5,943,849</u>	<u>\$ 29,383,667</u>	<u>\$ 27,273,977</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BAY ST. LOUIS, MISSISSIPPI
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	Governmental Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Capital Projects	Expendable Trust Fund	2003	2002
REVENUES					
Taxes					
Property	\$ 563,170	\$ -	\$ -	\$ 563,170	\$ 132,203
Gaming	2,927,862	-	-	2,927,862	2,639,841
Sales	1,270,282	-	-	1,270,282	1,186,129
Franchise	296,628	-	-	296,628	295,716
Licenses and permits	121,417	-	-	121,417	145,233
Intergovernmental	1,406,523	-	-	1,406,523	823,777
Fines and forfeitures	158,339	-	-	158,339	172,318
Charges for services	324,557	-	-	324,557	520,423
Interest	5,251	1,247	-	6,498	12,055
Miscellaneous	41,672	-	-	41,672	38,283
Total revenues	<u>7,115,701</u>	<u>1,247</u>	<u>-</u>	<u>7,116,948</u>	<u>5,965,978</u>
EXPENDITURES					
General government	1,454,723	-	-	1,454,723	1,676,619
Public safety	2,637,699	-	-	2,637,699	2,741,364
Public works	1,521,395	-	-	1,521,395	933,907
Parks and beautification	330,146	-	-	330,146	364,918
Health and welfare	48,778	-	-	48,778	48,935
Capital projects	-	-	-	-	39,731
Debt service					
Principal retirement	485,954	-	-	485,954	464,618
Interest charges	208,712	-	-	208,712	232,835
Total expenditures	<u>6,687,407</u>	<u>-</u>	<u>-</u>	<u>6,687,407</u>	<u>6,502,927</u>
Excess (deficiency) of revenues over expenditures	<u>428,294</u>	<u>1,247</u>	<u>-</u>	<u>429,541</u>	<u>(536,949)</u>
OTHER FINANCING SOURCES					
Bond proceeds	-	1,969,105	-	1,969,105	-
Sale of assets	5,800	-	-	5,800	22,473
Total other financing sources	<u>5,800</u>	<u>1,969,105</u>	<u>-</u>	<u>1,974,905</u>	<u>22,473</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>434,094</u>	<u>1,970,352</u>	<u>-</u>	<u>2,404,446</u>	<u>(514,476)</u>
Fund balances - October 1	(247,008)	79,107	17,790	(150,111)	364,365
Residual equity transfer in	98,660	19,553	-	118,213	-
Residual equity transfer out	(19,553)	(98,660)	-	(118,213)	-
Fund balances - September 30	<u>\$ 266,193</u>	<u>\$ 1,970,352</u>	<u>\$ 17,790</u>	<u>\$ 2,254,335</u>	<u>\$ (150,111)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BAY ST. LOUIS, MISSISSIPPI
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (Budgetary Basis)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	General Fund		
	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Taxes			
Property	\$ 573,160	\$ 567,057	\$ (6,103)
Gaming	2,888,826	2,913,068	24,242
Sales	1,224,391	1,255,651	31,260
Franchise	302,050	301,948	(102)
Licenses and permits	112,850	120,266	7,416
Intergovernmental	810,681	897,596	86,915
Fines and forfeitures	163,500	158,160	(5,340)
Charges for services	325,340	326,159	819
Interest	1,500	1,899	399
Miscellaneous	32,000	22,575	(9,425)
Total revenues	<u>6,434,298</u>	<u>6,564,379</u>	<u>130,081</u>
EXPENDITURES			
General government			
City Council			
Personnel	93,043	87,308	5,735
Other services	3,450	3,109	341
Total	<u>96,493</u>	<u>90,417</u>	<u>6,076</u>
Clerk of Council			
Personnel	32,319	32,340	(21)
Supplies	1,000	1,082	(82)
Other services	200	92	108
Total	<u>33,519</u>	<u>33,514</u>	<u>5</u>
Judicial			
Personnel	115,010	108,764	6,246
Supplies	3,500	3,346	154
Other services	270	262	8
Total	<u>118,780</u>	<u>112,372</u>	<u>6,408</u>
Office of the Mayor			
Personnel	146,898	146,067	831
Other services	675	504	171
Total	<u>147,573</u>	<u>146,571</u>	<u>1,002</u>
Department of Administration			
Personnel	209,406	206,639	2,767
Supplies	8,500	9,105	(605)
Other services	31,350	28,532	2,818
Capital outlay	2,500	1,760	740
	<u>251,756</u>	<u>246,036</u>	<u>5,720</u>

CITY OF BAY ST. LOUIS, MISSISSIPPI
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (Budgetary Basis)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	General Fund		
	Budget	Actual	Favorable (Unfavorable)
General government, continued			
Culture and recreation			
Personnel	92,933	91,768	1,165
Supplies	2,700	2,350	350
Other services	6,200	341	5,859
Capital outlay	3,500	-	3,500
Total	105,333	94,459	10,874
Economic development			
Personnel	219,057	216,570	2,487
Supplies	5,300	4,402	898
Other services	3,866	3,661	205
Capital outlay	700	490	210
Total	228,923	225,123	3,800
Other			
Support	144,530	136,636	7,894
Other services	362,272	361,180	1,092
Total	506,802	497,816	8,986
Total general government	1,489,179	1,446,308	42,871
Public safety			
Fire			
Personnel	971,390	956,143	15,247
Supplies	10,500	8,898	1,602
Other services	17,000	11,716	5,284
Capital outlay	57,500	54,240	3,260
Total	1,056,390	1,030,997	25,393
Police			
Personnel	1,278,365	1,239,366	38,999
Supplies	56,359	52,237	4,122
Other services	112,050	106,388	5,662
Capital outlay	72,850	73,970	(1,120)
Total	1,519,624	1,471,961	47,663
Crime prevention			
Personnel	166,133	163,740	2,393
Supplies	800	314	486
Other services	348	348	-
Capital outlay	1,500	-	1,500
Total	168,781	164,402	4,379
Total public safety	2,744,795	2,667,360	77,435

CITY OF BAY ST. LOUIS, MISSISSIPPI
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (Budgetary Basis)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	General Fund		
	Budget	Actual	Favorable (Unfavorable)
Public works			
Streets and public property			
Personnel	170,873	158,444	12,429
Supplies	49,000	47,738	1,262
Other services	268,900	241,547	27,353
Capital outlay	215,500	209,763	5,737
Total	704,273	657,492	46,781
General public works			
Personnel	202,894	198,815	4,079
Supplies	45,000	47,283	(2,283)
Other services	53,600	51,215	2,385
Capital outlay	1,500	1,928	(428)
Total	302,994	299,241	3,753
Total public works	1,007,267	956,733	50,534
Parks and beautification			
Personnel	286,757	281,015	5,742
Other services	36,500	38,063	(1,563)
Capital outlay	5,000	-	5,000
Total	328,257	319,078	9,179
Health and welfare			
Animal control			
Personnel	30,716	29,475	1,241
Supplies	900	802	98
Other services	18,887	18,349	538
Capital outlay	200	50	150
Total	50,703	48,676	2,027
Debt service			
Principal	440,000	440,000	-
Interest	200,360	200,360	-
Total	640,360	640,360	-
Total expenditures	6,260,560	6,078,515	182,045
Excess of revenues over expenditures	173,738	485,864	312,126

CITY OF BAY ST. LOUIS, MISSISSIPPI
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (Budgetary Basis)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	General Fund		
	Budget	Actual	Favorable (Unfavorable)
OTHER FINANCING SOURCES			
Sale of assets	10,000	5,800	(4,200)
Total other financing sources	10,000	5,800	(4,200)
Excess of revenues and other sources over expenditures	<u>\$ 183,738</u>	491,664	<u>\$ 307,926</u>
Fund balance - October 1 (GAAP basis)		<u>(247,008)</u>	
Fund balance - September 30 (Budgetary basis)		244,656	
Adjustments to conform with generally accepted accounting principles		<u>21,537</u>	
Fund balance - September 30 (GAAP basis)		<u>\$ 266,193</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE - UTILITY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With comparative totals for September 30, 2002)

	<u>2003</u>	<u>2002</u>
OPERATING REVENUES		
Charges for services	\$ 3,312,776	\$ 2,815,741
Miscellaneous	<u>106,688</u>	<u>138,583</u>
Total operating revenues	<u>3,419,464</u>	<u>2,954,324</u>
OPERATING EXPENSES		
Personnel services	526,769	494,906
Contractual services	1,132,619	1,375,358
Materials and supplies	837,957	572,300
Other services and charges	207,573	201,071
Depreciation	414,340	415,803
Bad debts	<u>10,192</u>	<u>156,374</u>
Total operating expenses	<u>3,129,450</u>	<u>3,215,812</u>
Income (loss) from operations	<u>290,014</u>	<u>(261,488)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	8,195	22,699
Interest expense	(271,238)	(232,690)
Amortization	<u>(5,224)</u>	<u>(5,224)</u>
Total nonoperating revenues (expenses)	<u>(268,267)</u>	<u>(215,215)</u>
Net income (loss)	21,747	(476,703)
Retained earnings - October 1	<u>1,065,437</u>	<u>1,542,140</u>
Retained earnings - September 30	<u><u>\$ 1,087,184</u></u>	<u><u>\$ 1,065,437</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE - UTILITY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With comparative totals for September 30, 2002)

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 3,174,826	\$ 2,628,072
Cash received from service users	106,688	138,583
Cash paid to suppliers	(2,062,919)	(1,977,416)
Cash paid to employees	(529,529)	(494,361)
Cash received from customer meter deposits, net	7,293	12,813
	<u>696,359</u>	<u>307,691</u>
Net cash provided by operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Advances to general fund	-	(283,136)
	<u>-</u>	<u>(283,136)</u>
Net cash used in noncapital financing activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(6,181)	(55,945)
Due to trustee	-	(86,976)
Principal paid on revenue bond maturities and notes payable	(220,000)	(210,000)
Interest paid on bonds and notes payable	(274,978)	(236,260)
	<u>(501,159)</u>	<u>(589,181)</u>
Net cash used in capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments	-	254,260
Interest received on investments	8,652	19,129
	<u>8,652</u>	<u>273,389</u>
Net cash provided by investing activities		
Net increase (decrease) in cash and cash equivalents	203,852	(291,237)
Cash and cash equivalents - October 1	706,592	997,829
Cash and cash equivalents - September 30	<u>\$ 910,444</u>	<u>\$ 706,592</u>

EXHIBIT E
(Continued)

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE - UTILITY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With comparative totals for September 30, 2002)

	<u>2003</u>	<u>2002</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income (loss) from operations	<u>\$ 290,014</u>	<u>\$ (261,488)</u>
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:		
Depreciation	414,340	415,803
Bad debts	10,192	156,374
Adjustment to fixed assets recorded	13,928	-
(Increase) decrease in assets:		
Accounts receivable	(137,950)	(187,669)
Advances to other funds	-	-
Prepaid expenses	(10,945)	(30,722)
Due from other funds	452,825	1,247,783
Inventory	(43,429)	44,809
Increase (decrease) in liabilities:		
Accounts payable	40,173	(80,983)
Retainage payable	-	(41,502)
Customer deposit liability	7,293	12,813
Accrued liabilities	(2,760)	545
Due to other funds	(337,322)	(968,072)
Total adjustments	<u>406,345</u>	<u>569,179</u>
Net cash provided by operating activities	<u>\$ 696,359</u>	<u>\$ 307,691</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Unrestricted		
Cash and cash equivalents	\$ 276,387	\$ 79,359
Restricted		
Cash and cash equivalents	<u>634,057</u>	<u>627,233</u>
Totals	<u>\$ 910,444</u>	<u>\$ 706,592</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Overview

The City of Bay St. Louis, Mississippi, was originally incorporated January 21, 1818, under the laws of the State of Mississippi. The City operates under a Mayor-Council form of Government. The following services are provided by the City: Public Safety (Police, Fire, and Protection Inspection), Street Maintenance, Sanitation, Water and Sewer, Gas Service, Social and Recreational, Public Improvements, Planning and Zoning, and General Administrative Services.

The City complies with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the year ended September 30, 2003.

Basis of Presentation

Financial Reporting Entity

The City's combined financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in its own name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City has no component units.

See Note 13 for additional information describing related organizations not included in the City's reporting entity.

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into three broad fund categories as follows:

Governmental Fund Types

Governmental funds are those funds through which the City finances most of its municipal services. Governmental funds are accounted for using the current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period. The City's governmental funds are as follows:

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Fund Accounting (Continued)

Governmental Fund Types (continued)

- General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds.
- Special Revenue Funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes. The City currently has no Special Revenue Funds.
- Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs which are not being financed by proprietary funds. The City currently has no Debt Service Funds.
- Capital Projects Funds – The Capital Projects funds are used to account for financial resources to be used for the acquisition or construction of major capital improvements and facilities (other than those financed by proprietary funds, special assessment funds and trust funds).

Proprietary Fund Type

Proprietary Funds are accounted for using the economic resources measurement focus; the accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its balance sheets. Proprietary fund equity is segregated into contributed capital and retained earnings. The City's proprietary fund type includes the following:

- Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City reports its utility operations as an Enterprise Fund. These utility operations include providing water, sewer and gas services to its customers.

Fiduciary Fund Type

- Trust and Agency Funds – The Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. These include expendable trust funds and agency funds. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Fund Accounting (Continued)

Account Groups

Account groups are used to establish accounting control and accountability for the City's general fixed assets and long-term liabilities which are not accounted for in the respective governmental funds. The account groups are not "funds". They are concerned only with the measurement of financial position, not with the measurement of results of operations. The City's account groups are as follows:

- General Fixed Assets Account Group - The City has only recorded general fixed assets (i.e., those fixed assets not accounted for in proprietary funds) for the past ten fiscal years. Accordingly, such assets are reported in the General Fixed Assets Account Group. However, assets purchased prior to October 1, 1993, are not reported in the General Fixed Assets Account Group as required by generally accepted accounting principles.
- General Long-Term Debt Account Group - This group of accounts is established to account for all long-term debt and certain other liabilities of the City that are not specific liabilities of the proprietary funds.

Total Columns (Memorandum Only)

Total columns on the general purpose financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. Data in these columns do not present information that reflects financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

Comparative Data

Comparative data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the City's financial position and operations. Certain reclassifications have been made to the September 30, 2002 total data to conform to the 2003 presentation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Basis of Accounting and Measurement Focus

Modified Accrual Basis of Accounting

All governmental fund types and the agency funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected but unsettled at year-end. A two-month availability period is used for revenue recognition for most other governmental fund revenues.

CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting and Measurement Focus (Continued)

Modified Accrual Basis of Accounting (Continued)

Revenues not considered available are recorded as deferred revenues, if material. Also, under modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest, which are reported as expenditures in the year due. Liabilities that will not be normally liquidated with expendable available financial resources are recorded in the general long-term debt account group.

Those revenues susceptible to accrual are franchise taxes, sales taxes collected and held by the State at year-end on behalf of the City, grants and interest revenues. Licenses and permits, certain charges for services, fines and forfeits and miscellaneous other revenues are recorded as revenues when received in cash because they are generally not measureable or available until actually received.

Disbursements for inventory type items are considered expenditures at the time of purchase rather than at the time the items are used. Disbursements for capital items within governmental funds are considered expenditures when purchased and no depreciation is taken.

Accrual Basis of Accounting

The proprietary funds are maintained using the accrual basis of accounting. Under this method, revenues from exchange transactions are recognized in the accounting period in which they are earned and become measurable. Revenues from non-exchange transactions, such as grants and contributions are recognized in the year in which all eligibility requirements have been satisfied. Expenses, including depreciation, are recognized in the period incurred, if measurable. Unbilled utility service receivables are recorded at year-end.

Assets, Liabilities and Equity

Deposits and Investments

The City's cash and cash equivalents are primarily considered to be cash on hand and amounts in demand deposits. For purposes of the statement of cash flows, short-term investments held in proprietary funds with a maturity date within three months of the date acquired by the City are considered cash equivalents.

State statutes authorize the City to invest in certificates of deposit and obligations of the U.S. Treasury, the State of Mississippi, and certain other instrumentalities of the State, as further explained at Note 4.

Investments, if any, are recorded at cost, which approximates fair value.

Receivables

All trade receivables are shown net of an allowance for uncollectibles. An allowance has been provided in the Utility Enterprise Fund for estimated uncollectible utility charges. The allowance is based on historical bad debt experience and an evaluation of the aging of accounts.

Short-Term Interfund Receivables and Payables

Numerous interfund transactions occur during the normal course of operations of the City. Disbursements made by one fund which are properly chargeable to another fund result in the creation of interfund receivables and payables which are classified as "due to/from other funds". This type of transaction is normally settled by a cash transfer between the funds. All other interfund transactions are accounted for as either an operating transfer or a residual equity transfer. A residual equity transfer represents a transfer of the residual fund balance of a discontinued fund to another fund or a nonrecurring or non-routine transfer of equity between funds. Operating transfers are all legally authorized transfers which are not classified as residual equity transfers.

CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (Continued)

Advances to/from Other Funds

Transactions between funds that are representative of lending/borrowing arrangements are recorded as advances. The current portion of such advances is referred to as "interfund receivables/payables." The noncurrent portion of interfund loans is recorded as "advances to/from other funds." Advances between funds are offset by a fund balance reserve account, in applicable government funds, to indicate that they do not constitute "expendable available financial resources" and, therefore, are not available for appropriation.

Inventories

The City's Utility Fund operation is required to maintain an inventory of stored natural gas with its supplier. The gas inventory is valued at cost using the first-in/first-out (FIFO) method.

The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Restricted Assets

Certain proceeds of enterprise fund revenue bonds and loans, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond and loan covenants. The "revenue bond operations and maintenance" account is used to report resources set aside to subsidize potential deficiencies from the enterprise fund's operation that could adversely affect debt service payments. The required reserve should represent a sum sufficient to pay the estimated cost of operating and maintaining the combined water, sewer, and gas system in good repair and working order for one month. The "revenue bond debt service" account is used to segregate resources accumulated for debt service payments over the next twelve months.

General Fixed Assets

Fixed assets used in governmental fund types of the City are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets. However, as previously noted, the City has not maintained a record of general fixed assets acquired before October 1, 1993. Accordingly, such assets have not been reported in the General Fixed Assets Account Group as required by accounting principles generally accepted in the United States of America.

Public domain (infrastructure) general fixed assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included in the general fixed assets account group.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (Continued)

Property, Plant, and Equipment

Property, plant and equipment associated with the activities of proprietary funds are recorded as assets of those funds, and are stated at historical cost if purchased, or at fair market value at date of gift if donated. Assets purchased or constructed by non-enterprise funds are recorded at historical cost. Depreciation has been provided over the estimated useful lives using the straight-line method.

The following estimated useful lives for proprietary fund assets are used to compute depreciation:

Plant structures and buildings	40 years
Distribution systems, water mains and hydrants	10 -20 years
Improvements	10 -20 years
Machinery and equipment	3 - 7 years
Vehicles	3 - 5 years
Office furniture and equipment	3 -10 years
Gas and water meters	3 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed.

Compensated Absences

The City has three types of compensated absences which accumulate, described as follows:

Vacation

Full-time employees who work year round are granted vacation from ten to fifteen days per year depending on the employee's length of service. Employees may carry forward to the subsequent period up to a maximum of thirty days accrued vacation. Accordingly, the maximum accrued vacation for which an employee is entitled upon termination or retirement is six weeks.

Sick Leave

Each employee is entitled to seven days of sick leave per year. Sick leave may be accumulated up to a maximum of 320 hours. However, employees are not entitled to accrued sick leave upon termination or retirement.

Personal Leave

Each employee is entitled to five days of personal leave per year. Personal leave may be accumulated up to a maximum of 80 hours. Employees with more than one year of service are entitled to personal leave upon termination or retirement.

The City has recorded the accrued liability for accumulated unpaid vacation and personal leave in the accompanying financial statements. Because amounts expected to be paid with current financial resources are not considered material, compensated absence liabilities for governmental funds are recorded only in the General Long-Term Debt Account Group. No determination of unrecorded sick pay has been made at September 30, 2003, as these amounts are provided for within the City's annual budget. Any unusual or additional liabilities incurred as a result of unrecorded sick leave are not considered to be significant. Accumulated unpaid vacation and personal leave amounts are accrued when incurred in proprietary funds (using the accrual basis of accounting).

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (Continued)

Long-Term Obligations

The City reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period, if any. Bond proceeds are reported as an other financing source net of the applicable premium or discount and bond issuance costs. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

Claims and Judgments

Losses resulting from claims and judgments are estimated in accordance with Financial Accounting Standards Board Statement No. 5. The liability for such losses, if any, is recorded in the respective fund.

Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Reservations of retained earnings are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change. The proprietary fund's contributed capital, if any, represents equity acquired through capital grants and capital contributions from developers, customers or other funds.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The procedures used by the City in establishing the budgetary data recorded in the general purpose financial statements are as follows:

- Prior to August 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- No later than September 15, the budget is legally enacted through passage of a resolution.

CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budgetary Information (Continued)

- Formal budgetary integration is employed as a management control device during the year for the General Fund and Enterprise Fund. The Capital Projects Fund is not formally budgeted. Instead project-length financial plans are used to monitor projects in the Capital Projects Fund.
- Budgets for the General and Enterprise Funds are adopted on a cash basis as required by State statute. All budgeted amounts presented in the accompanying general purpose financial statements are as originally adopted or as amended by the City Council. Accordingly, actual figures have also been presented on a cash basis.
- Appropriations are valid only for the year in which made, and any part of such appropriations which is not encumbered or expensed lapses at the end of the year. The level of control over the budget is exercised at the department or program level for the General Fund and Utility Fund. Expenditures may not legally exceed budgeted appropriations and any existing fund balance at the various fund levels. On September 13, 2003, the City amended its original budget for each fund as follows:

	<u>Original Budget</u>	<u>Increase (Decrease)</u>	<u>Amended Budget</u>
Revenues:			
General Fund	\$ 6,635,854	\$ (191,556)	\$ 6,444,298
Enterprise Fund	<u>3,294,500</u>	<u>152,700</u>	<u>3,447,200</u>
Total revenues	<u>9,930,354</u>	<u>(38,856)</u>	<u>9,891,498</u>
Appropriations from fund equity	<u>18,779</u>	<u>-</u>	<u>-</u>
Total revenues and appropriations from fund equity	<u><u>\$ 9,949,133</u></u>	<u><u>\$ (38,856)</u></u>	<u><u>\$ 9,891,498</u></u>
Expenditures:			
General Fund	\$ 6,654,633	\$ (394,073)	\$ 6,260,560
Enterprise Fund	<u>3,242,100</u>	<u>94,218</u>	<u>3,336,318</u>
Total expenditures	<u>9,896,733</u>	<u>(299,855)</u>	<u>9,596,878</u>
Appropriations to fund equity	<u>52,400</u>	<u>260,999</u>	<u>294,620</u>
Total expenditures and appropriations to fund equity	<u><u>\$ 9,949,133</u></u>	<u><u>\$ (38,856)</u></u>	<u><u>\$ 9,891,498</u></u>

Budget/GAAP Reconciliation

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual for the General Fund (Exhibit C) presents comparisons of the legally adopted budget with actual data on the budgetary basis. Accounting principles applied for purposes of developing data on the budgetary basis differ from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budget/GAAP Reconciliation

A reconciliation of timing differences in the fund balance for the year ended September 30, 2003, is presented below:

	General Fund
Fund balance, September 30 (budgetary basis)	\$ 244,656
Adjustments:	
To record accounts receivable	27,443
To record amounts due to/from other governments, net	(22,450)
To record amounts due to/from other funds, net	111,245
To record prepaid expenses	(2,500)
To record accounts payable	(65,402)
To record other liabilities	(26,799)
Total adjustments	21,537
Fund balance, September 30 (GAAP basis)	\$ 266,193

NOTE 3 - REVENUES

Sales Tax Revenue

Sales tax payments are collected by the State of Mississippi and are remitted to the City. Sales taxes are assessed and due on the twentieth day of the month subsequent to the month of sale of any retail sales of goods used or consumed within the City, including leases and rentals of movable tangible property. Sales tax remittances reported as tax revenues for the year ended September 30, 2003, were \$1,270,282.

Gaming Revenues

Gaming Revenues are derived from three sources as follows:

Gross Revenue Gaming Tax

This tax is imposed and collected by the State of Mississippi similar to sales tax and remitted to the City. Gross revenue gaming taxes reported as revenue for the year ended September 30, 2003, totaled \$142,050 and are included in gaming revenues.

Gaming Device Tax

This tax is similar to a personal property tax and is assessed on all gaming devices maintained by casinos within the City's corporate limits. The tax is collected by the State of Mississippi and remitted to the City. Gaming device taxes reported as revenue for the year ended September 30, 2003, totaled \$122,700 and are included in gaming revenues.

Boarding Fees

The City is permitted by law to collect a boarding fee from casinos within its corporate limits. Accordingly, the City has negotiated a contractual amount to be paid directly to the City on a monthly basis and is based on gross revenues. Such remittances reported as revenue for the year ended September 30, 2003, totaled \$2,663,112 and are included in gaming revenues.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 3 - REVENUES (Continued)

Property Tax

The City levies a tax on real and personal property based on the assessed value of property as compiled by the Hancock County tax assessor from information extracted from the county assessment tax rolls. The taxes on real property attach as an enforceable lien on the property as of January 1 and are due by January 1. Taxes on real and personal property are levied by the City Council at the first regular meeting in September. The City tax assessment roll is then approved by the City Council after a series of public hearings to receive citizen objections. Such taxes are billed and collected by the County and are remitted to the City monthly.

In accordance with Mississippi Code of 1972, as amended for code section 27-39-321, the City Council may levy taxes in any amount for general revenue purposes and general improvements. However, taxes collected for the current year are limited to an increase of not more than 10% over receipts for any one of the preceding three years. As an alternative to this limitation, the City may elect to increase the ad valorem tax levy by the greater of:

- An ad valorem tax levy that does not result in an aggregate levy in excess of twenty (20) mills; or
- An ad valorem tax levy that is not in excess of any aggregate levy in any one of the immediately preceding ten fiscal years.

For purposes of the computation, taxes collected in the current year resulting from property added to the tax assessment roll are excluded from the computation.

The rates are expressed in terms of mills (i.e., ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt and other purposes for the year ended September 30, 2003, was 10.50 mills or \$10.50 per \$1,000 of assessed valuation. A summary of the assessed valuations and tax levies of the City for the year ended September 30, 2003, have been provided below. The tax levies have been shown comparative with the previous year for informational purposes.

State law prior to fiscal year 2003 required the municipality to exercise its taxing authority for the benefit of other governing authorities, which are not a part of the reporting entity. As provided, the municipality levied specified ad valorem taxes as directed by the other governing authority and turned all proceeds over to it. Accordingly, taxes for the Bay St. Louis – Waveland School District were also billed and collected by the County and remitted to the City for disbursement to the School District for the year ended September 30, 2002. Ad valorem taxes collected and settled in accordance with this legal requirement were not recognized as revenues and expenditures of the municipality. The tax levies noted below with respect to the school funds were made in accordance with this legal requirement.

The assessed valuations of the City for the years ended September 30, 2003, and 2002, are as follows:

	<u>2003</u>	<u>2002</u>
<u>City:</u>		
Real property	\$ 57,479,756	\$ 42,910,403
Personal property	7,649,591	7,944,826
Public utilities	4,543,052	4,564,575
Automobiles	10,813,204	9,870,283
Totals	<u>\$ 80,485,603</u>	<u>\$ 65,290,087</u>
<u>School District:</u>		
Real property	\$ -	\$ 94,203,929
Personal property	-	12,338,895
Public utilities	-	6,204,287
Automobiles	-	17,541,849
Totals	<u>\$ -</u>	<u>\$ 130,288,960</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 3 - REVENUES (Continued)

Property Tax (Continued)

The tax levies for the years ended September 30, 2003 and 2002, and the year ending September 30, 2004, are as follows:

	2004	2003	2002
City funds:			
General	17.75	10.50	5.00
Total city funds	17.75	10.50	5.00
School funds:			
School bond sinking fund	5.00	7.50	13.70
School short term loan fund	1.50	1.50	3.00
Minimum program fund	-	-	1.30
District maintenance	37.50	35.50	39.00
Total school funds	44.00	44.50	57.00
Total levy	61.75	55.00	62.00

Property tax revenue reported as taxes in the general purpose financial statements is accrued at year-end to the extent that it is measurable and estimated to become available to finance current operations. Real property taxes are recognized as revenue when received because most delinquent real property taxes are collected by selling real property for taxes, together with all fees, penalties, and damages, accruing until the date of sale, before the close of the fiscal year. The remaining amount of real property not sold for taxes at the tax sale is considered immaterial; therefore, no end of year delinquent taxes receivable is recorded. The amount of delinquent personal property taxes unpaid at year-end is also considered immaterial.

Grant Revenue

Revenues from federal, state and other grants, which fund specific City expenditures, are recognized at the time of the specific expenditure. The City reports deferred revenue in connection with receivables for grant revenues that are not considered to be available to liquidate liabilities in the current period.

Management Fees

The City's Utility Fund (proprietary fund type) pays a management fee to the General Fund to cover various costs such as administrative salaries, insurance, occupancy costs, etc. Such fees totaled \$300,000 for the year ended September 30, 2003, and have been included in "Charges for Services" revenue on the General Fund and in "Contractual Services" expenses on the Utility Fund.

NOTE 4 - DEPOSITS AND INVESTMENTS

Deposits

Mississippi statutes allow municipalities to select depositories on the basis of competitive bid. Depositories must be covered by the Federal Depository Insurance Corporation (FDIC). The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 of the Mississippi Code. Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the FDIC. By using this multiple financial institution collateral pool, all of the City's deposits at September 30, 2003 fall into the credit risk category of "Insured or collateralized with securities held by the entity or by its agent in the entity's name".

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Deposits (continued)

The City deposits funds in financial institutions selected in accordance with Mississippi statutes. At September 30, 2003, deposits (including restricted deposits; see Note 10) are as follows:

	Bank Balance	Carrying Amount
Cash in bank	\$ 2,934,697	\$ 2,863,058
Cash on hand	-	8,272
Government money market	-	628,290
Total	\$ <u>2,934,697</u>	\$ <u>3,499,620</u>

Investments

Mississippi municipalities may invest surplus funds in certificates of deposit with qualified depositories and in bonds and direct obligations of the United States of America; or the State of Mississippi; or any county, municipality or school district of the State of Mississippi which have been approved by a reputable bond attorney or have been validated by the decree of the chancery court. The City held no investments as of September 30, 2003.

NOTE 5 - ACCOUNTS RECEIVABLE

The combined balance sheet of the City of Bay St. Louis includes the following utility customer receivables at September 30, 2003:

Water and sewer utility charges billed but uncollected	\$ 1,332,577
Water and sewer utility charges accrued but unbilled at year end	<u>127,237</u>
Total accounts receivable	1,459,814
Less: allowance for uncollectibles	<u>(1,011,201)</u>
Accounts receivable (net of allowance for uncollectibles)	\$ <u>448,613</u>

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivables, payables and transfers at September 30, 2003, were as follows:

	Advances to Other Funds	Advances from Other Funds
<u>General Fund</u>		
Utility Fund	\$ <u>-</u>	\$ <u>283,136</u>
<u>Enterprise Utility Fund</u>		
General Fund	<u>283,136</u>	<u>-</u>
Totals	\$ <u>283,136</u>	\$ <u>283,136</u>

CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES (Continued)

	Due From Other Funds	Due to Other Funds
<u>General Fund</u>		
A/P Clearing Fund	\$ -	\$ 983
Payroll Clearing Fund	45,678	-
Utility Fund	-	91,546
Unemployment Compensation Fund	-	1,469
Tax Collector Clearing	12,064	-
	<hr/>	<hr/>
Total General Fund	57,742	93,998
	<hr/>	<hr/>
<u>Enterprise Utility Fund</u>		
A/P Clearing Fund	858	-
Payroll Clearing Fund	-	48,818
General Fund	91,546	-
	<hr/>	<hr/>
Total Enterprise Utility Fund	92,404	48,818
	<hr/>	<hr/>
<u>Fiduciary Funds</u>		
Payroll Clearing Fund:		
General Fund	-	45,678
Utility Fund	48,818	-
A/P Clearing Fund	202	-
	<hr/>	<hr/>
	49,020	45,678
	<hr/>	<hr/>
Tax Collector Clearing:		
General Fund	-	12,064
	<hr/>	<hr/>
Accounts Payable Clearing Fund:		
General Fund	-	858
Utility Fund	983	-
Payroll Clearing Fund	-	202
	<hr/>	<hr/>
	983	1,060
	<hr/>	<hr/>
Unemployment Compensation Fund:		
General Fund	1,469	-
	<hr/>	<hr/>
Total Fiduciary Funds	51,472	58,802
	<hr/>	<hr/>
Totals	\$ 201,618	\$ 201,618
	<hr/>	<hr/>

CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES (Continued)

	Residual Equity Transfers to Other Funds	Residual Equity Transfers from Other Funds
<u>General Fund</u>		
Capital Improvements Bond Fund	\$ 19,553	\$ -
Capital Projects Fund	-	98,660
	<u>19,553</u>	<u>98,660</u>
<u>Capital Improvements Bond Fund</u>		
General Fund	-	19,553
<u>Capital Projects Fund</u>		
General Fund	<u>98,660</u>	<u>-</u>
Totals	<u>\$ 118,213</u>	<u>\$ 118,213</u>

NOTE 7 - DUE FROM OTHER GOVERNMENTS

Due from other governmental units consisted of the following at September 30, 2003:

	General Fund	Tax Collector Clearing Fund	A/P Clearing Fund
State Governmental Units:			
Gaming gross revenue taxes	\$ 14,107	\$ -	\$ -
Alcohol beverage license	4,275	-	-
State/Federal grants	193,277	-	-
Other miscellaneous	6,735	-	-
Local Governmental Units:			
City of Waveland - NTF revenues	21,835	-	-
Hancock County - property taxes	-	11,118	-
Total due from other governments	<u>\$ 240,229</u>	<u>\$ 11,118</u>	<u>\$ -</u>

NOTE 8 - FIXED ASSETS

A discussed in Note 1, the City has not maintained an adequate record of its general fixed assets acquired prior to October 1, 1993. The changes in the City's fixed assets during fiscal year ending September 30, 2003 is summarized as follows:

CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 8 - FIXED ASSETS (Continued)

General Fixed Asset Account Group

	October 1, 2002	Additions	Deletions	Reclass	September 30, 2003
Land	\$ 94,626	\$ -	\$ -	\$ -	\$ 94,626
Buildings	2,628,892	-	-	-	2,628,892
Improvements other than buildings	8,287,230	-	-	55,426	8,342,656
Machinery and equipment	537,125	46,326	-	-	583,451
Vehicles	1,110,845	-	-	-	1,110,845
Construction in progress	141,794	728,890	-	(55,426)	815,258
Total general fixed assets	<u>\$ 12,800,512</u>	<u>\$ 775,216</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,575,728</u>

Construction in progress consists primarily of construction, engineering and miscellaneous costs related to the Green Meadow Road/Drinkwater Road Traffic Signal Project.

Enterprise Fund

	October 1, 2002	Additions	Deletions	Reclass	September 30, 2003
Sewer/water/gas systems	\$ 11,016,340	\$ -	\$ -	\$ -	\$ 11,016,340
Buildings	50,000	-	-	-	50,000
Building improvements	68,603	-	-	-	68,603
Equipment	329,578	6,180	-	-	335,758
Vehicles	263,511	-	-	-	263,511
Construction in progress	13,927	-	(13,927)	-	-
Total property, plant and equipment	11,741,959	6,180	(13,927)	-	11,734,212
Less: accumulated depreciation	(7,008,471)	(414,340)	-	-	(7,422,811)
Net property, plant and equipment	<u>\$ 4,733,488</u>	<u>\$ (408,160)</u>	<u>\$ (13,927)</u>	<u>\$ -</u>	<u>\$ 4,311,401</u>

NOTE 9 - LONG-TERM DEBT

Changes in outstanding debt during the year ended September 30, 2003, are as follows:

	October 1, 2002	Additions	Retirements	September 30, 2003
General Long-Term Debt:				
Bonds	\$ 3,830,000	\$ 2,000,000	\$ (340,000)	\$ 5,490,000
Note	200,000	-	(100,000)	100,000
Capital leases	182,448	-	(45,954)	136,494
Compensated absences	241,804	-	(24,449)	217,355
Total general long-term debt	<u>4,454,252</u>	<u>2,000,000</u>	<u>(510,403)</u>	<u>5,943,849</u>
Enterprise Fund:				
Bonds	<u>4,910,000</u>	<u>-</u>	<u>(220,000)</u>	<u>4,690,000</u>
Total all funds	<u>\$ 9,364,252</u>	<u>\$ 2,000,000</u>	<u>\$ (730,403)</u>	<u>\$ 10,633,849</u>

CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 9 - LONG-TERM DEBT (Continued)

(A) Bonds Payable

General Long-Term Debt - General obligation debt

On August 1, 1996, the City entered into a general obligation bond issue totaling \$5,500,000. The bonds were issued to provide funds for the purpose of constructing, repairing and equipping recreational facilities; erecting, repairing, improving and finishing a public building to be used as a senior citizen center; purchasing a fire truck; constructing, improving and paving streets and sidewalks; and repairing, improving and extending the drainage system. Interest is payable semiannually on February 1 and August 1 of each year. The interest rates range from 5.00% to 7.00%. Principal is payable annually through August 1, 2011.

On August 27, 2003, the City entered into a general obligation bond issue totaling \$2,000,000. The bonds were issued to provide funds for the purpose of improving and constructing infrastructure. Interest is payable semiannually on February 1 and August 1 of each year. The interest rates range from 2.75% to 3.90%. Principal is payable annually through August 1, 2013.

Enterprise Fund - Special obligation bonds

On April 1, 1998, the City entered into a utility system bank loan agreement with the Mississippi Development Bank (Bank) for \$5,500,000 for the purpose of constructing improvements, extensions, modifications and repairs of the City's utility system (water, sewer and gas). The loan was funded through the issuance of Special Obligation Bonds of the Bank. The interest rates on the bonds range from 5.1% to 6.8% and mature between July 1, 2000 and July 1, 2017.

The City's Utility System Bank Loan contains a number of limitations and restrictions on annual debt through various restricted accounts, minimum amounts to be maintained in various funds, minimum insurance coverages, and minimum revenue bond coverages. At September 30, 2003, the City was in compliance with all such limitations and restrictions.

Bonds Payable - Principal and interest maturities will be as follows:

Year Ending September 30,	General Long-Term Debt		Enterprise Fund Debt		Total Requirements
	Principal	Interest	Principal	Interest	
2004	\$ 520,000	239,900	230,000	260,019	\$ 1,249,919
2005	545,000	215,715	245,000	244,379	1,250,094
2006	580,000	190,335	260,000	227,719	1,258,054
2007	605,000	163,315	270,000	210,039	1,248,354
2008	640,000	135,100	285,000	196,269	1,256,369
2009 - 2013	2,600,000	250,038	1,685,000	740,798	5,275,836
2014 - 2017	-	-	1,715,000	236,769	1,951,769
Totals	\$ 5,490,000	\$ 1,194,403	\$ 4,690,000	\$ 2,115,992	\$ 13,490,395

(B) Note Payable

On April 30, 1999, the City issued a negotiable note to a bank for \$500,000 for the purpose of purchasing a fire truck and financing drainage projects. Interest is payable semiannually on April 30 and October 30 of each year at 4.43%. Principal is payable annually through April 30, 2004.

Principal and interest maturities will be as follows:

Year Ending September 30,	Principal	Interest	Total Requirements
2004	\$ 100,000	\$ 4,483	\$ 104,483

CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 9 - LONG-TERM DEBT (Continued)

(C) Capital Leases

On May 23, 2001, the City entered into a capital lease agreement for the purchase of fourteen police cars. The total amount financed is \$257,954 at 5.17% for 60 months at \$4,553 per month. The lease agreement contains a \$1 purchase option available at the contract end.

For the fiscal year ended 2003, the City incurred \$12,033 of interest expense for the lease obligation. The lease, payable from the General Fund, was reported as an expenditure and other financing source in the year of acquisition. The vehicles are included in the General Fixed Assets Account Group at a cost of \$257,974.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2003, were as follows:

Year Ending September 30,		
2004	\$	54,641
2005		54,641
2006		36,763
		<hr/>
Total minimum lease payments		146,045
Less amount representing interest		(9,551)
		<hr/>
Present value of minimum payments	\$	<u><u>136,494</u></u>

(D) Legal Debt Margin

The City's legal debt limit for general obligation bonds is \$12,072,840. At September 30, 2003, the City's legal debt margin, after reduction for outstanding general obligation bonds of \$5,490,000, was \$6,582,840.

NOTE 10 - RESERVED RETAINED EARNINGS AND RESTRICTED ASSET ACCOUNTS

Reserved Retained Earnings

The City's Bond covenants require certain reservations of the Utility Fund's retained earnings. The reserved portions are as follows:

Reserved for revenue principal and interest	\$	122,505
Debt service reserve		<u>499,259</u>
		<hr/>
Total debt service covenants		621,764
Less: principal and interest payable from restricted assets		(295,005)
		<hr/>
Total reserved retained earnings	\$	<u><u>326,759</u></u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 10 - RESERVED RETAINED EARNINGS AND RESTRICTED ASSET ACCOUNTS (Continued)

Restricted Assets

The balance of the restricted asset accounts are as follows:

Customer deposits	\$ 295,429
Revenue bond and loan current debt service accounts	122,505
Debt service reserve account	499,259
Capital projects	<u>1,975,075</u>
Total restricted assets	<u>\$ 2,892,268</u>

Restricted assets are presented on the combined balance sheet as follows:

Cash and cash equivalents	\$ 2,609,132
Advances to general fund	<u>283,136</u>
	<u>\$ 2,892,268</u>

NOTE 11 - UNEMPLOYEMENT COMPENSATION FUND

The City maintains a revolving fund for unemployment compensation benefits with a balance of approximately 2% of the first \$6,000 of employee wages paid in the preceding calendar year.

NOTE 12 - RISK MANAGEMENT

The City is covered for significant losses through commercial insurance carriers except for the following, which are covered through self-insurance risk pools.

(A) Self Insurance – Worker’s Compensation Fund

The City is one of approximately 255 members in the Mississippi Municipal Worker’s Compensation Group, Inc. This non-profit corporation is a self-insurance worker’s compensation fund organized under the non-profit laws of the State of Mississippi. The group is self-insured under statutory workers compensation protection. Members are jointly and severally liable for the obligations of the group. The possibility of additional liability exists, but that amount, if any, cannot be determined.

(B) Self Insurance – Liability Fund

The City is one of approximately 245 members in the Mississippi Municipal Liability Plan. The Plan is a private non-profit corporation organized under the laws of the State of Mississippi. The plan provides liability and tort claims insurance for its members according to limits established by the Mississippi Tort Claim Act. The plan is totally self-insured with claims and expenses paid out of the premiums and the members are jointly and severally liable for any claims and expenditures beyond the premium base. The possibility of additional liability exists, but that amount, if any cannot be determined.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 13 - JOINT VENTURES

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Generally, the purpose of a joint venture is to pool resources and share the costs, risks and rewards of providing goods or services to the venture participants directly, or for the benefit of the general public or specific service recipients.

Hancock County Solid Waste Authority

The City provides for pickup and disposal of garbage and trash through a solid waste contract with the Hancock County Solid Waste Authority (Authority), formerly Hancock County Solid Waste Management District. The Authority was formed as an inter-local joint venture with the City of Waveland and Hancock County, Mississippi, late in fiscal year 1994. The Authority was officially incorporated in March 1998 pursuant to an incorporation agreement entered into in December 1997. During the year ended September 30, 2003, the City paid \$213,436 for solid waste services under the new agreement, and have been included in "Contractual Services" expenses in the Utility Fund.

The City is jointly and severally liable for all of the liabilities of the Authority. The Authority is also classified as a joint venture between the City of Bay St. Louis and the other members. The following is a synopsis of the Authority's financial statements as of and for the year ended June 30, 2003. The Authority previously operated on a September 30 fiscal year end.

Complete financial statements can be obtained from the Authority's Administrator by calling (228) 467-2770.

BALANCE SHEET

ASSETS

Current assets	\$ 453,808
----------------	------------

LIABILITIES AND FUND EQUITY

LIABILITIES

Current, unrestricted	\$ 156,760
-----------------------	------------

FUND EQUITY

Total liabilities and fund equity	\$ 296,548
-----------------------------------	------------

	\$ 453,308
--	------------

STATEMENT OF REVENUES AND EXPENSES

Operating revenues	\$ 1,944,717
Operating expenses	(1,900,903)
Non-operating revenues (expenses)	3,347
Net income	\$ 47,161

Southern Regional Wastewater Management District

The City of Bay St. Louis contracts with the Southern Regional Wastewater Management District (District) whereby the District treats and disposes of the City's wastewater in compliance with water quality standards established by the Mississippi Air and Water Pollution Control law and the Federal Water Pollution Control Act.

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 13 - JOINT VENTURES (Continued)

Southern Regional Wastewater Management District (continued)

The District provides for the operation and maintenance of the sewer treatment plant on a cost reimbursement basis. Pursuant to the terms of the agreement, the City is required to pay monthly costs of operations and maintenance directly associated with the treatment facilities and to share in the construction costs of the treatment facility. The costs associated with this contract total \$645,977 for the year ended September 30, 2003, and have been included in "Contractual Services" expenses in the Utility Fund. A fee has been added to rates charged by the Utility System as an assessment for the Wastewater District.

The City's obligation to pay operational costs of the District is joint with the obligations of all other public agencies similarly contracting with the District, including the City of Waveland and Hancock County, Mississippi. Whenever any public agency shall default in the payment to the District of its respective payment, the District may adjust the contract sums of the remaining public agencies which are not in default so as to increase their contract sums by a proportional amount. Accordingly, the City is jointly and severally liable for all of the liabilities of the District. The District is classified as a joint venture between the City of Bay St. Louis and the other members. The District's financial statements as of and for the year ended September 30, 2003 were incomplete at the time of this report. Financial statements, when completed, can be obtained from the District's administrative office on Gulfside Road in Waveland, Mississippi or by calling (228) 365-6702.

NOTE 14 – ECONOMIC DEPENDENCY

Casino gaming industry revenues accounted for approximately 41% of the City's general fund revenues for the year ended September 30, 2003.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Legal Actions

The City is a defendant in lawsuits arising principally in the normal course of operations. These are various pending legal actions the outcome of which, in the opinion of City management, will not have a material adverse effect on the accompanying general purpose financial statements and, accordingly, no provision for losses has been recorded.

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

Contract Commitments

The following significant construction contracts were outstanding at September 30, 2003:

<u>Improvements</u>	<u>Total Contract</u>	<u>Expended To Date</u>	<u>Outstanding Commitment</u>
Drinkwater/Green Meadow - Traffic Signal	\$ 1,650,287	\$ 756,678	\$ 893,609

**CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 15 - COMMITMENTS AND CONTINGENCIES (Continued)

Annexation

The City is currently in the process of pursuing annexation of an area of Hancock County, Mississippi. A court date for the trial related to annexation has been set for November 29, 2004. It is not yet clear what legal and consulting expenses might be incurred as a result of the annexation effort.

NOTE 16 - DEFERRED COMPENSATION PLAN

The City, through the Mississippi Public Employees' Retirement System (PERS), offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Assets of the plan have been placed in trust for the exclusive benefit of participants and their beneficiaries. As of September 30, 2003 assets held by PERS for participants employed by the City approximated \$297,388.

NOTE 17 - DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Bay St. Louis contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy

PERS members are required to contribute 7.25% of their annual covered salary and the City of Bay St. Louis is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Bay St. Louis' contributions to PERS for the years ending September 30, 2003, 2002, and 2001, were \$325,842, \$335,301, and \$343,464, respectively, equal to the required contributions for each year.

NOTE 18 - SUBSEQUENT EVENTS

The following events occurred subsequent to September 30, 2003:

Contract award

In November 2003, the City awarded a contract in the amount of approximately \$335,000 for the 2003 Road Improvement Projects which will be funded out of the 2003 General Obligation Bond proceeds.

Contract supplemental agreements

In March 2004, the City entered into two supplemental agreements to an original contract totaling approximately \$88,000 in connection with the Drinkwater/Green Meadows Roads Project. The agreements are to be funded through grant funds from the Mississippi Department of Transportation along with general operating revenues of the City.

CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 18 - SUBSEQUENT EVENTS (Continued)

Purchase of property

In June 2004, the City authorized the purchase of beachfront property at a purchase price of approximately \$340,000 to be paid for through Tidelands funding.

NOTE 19 – NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments.” This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The City is required to implement this standard for the fiscal year ending September 30, 2004. The City has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

**COMBINING, INDIVIDUAL FUND AND
ACCOUNT GROUP STATEMENTS**

GENERAL FUND

SCHEDULE 1-A

**CITY OF BAY ST. LOUIS, MISSISSIPPI
GENERAL FUND
BALANCE SHEET
SEPTEMBER 30, 2003**
(With comparative totals for September 30, 2002)

	<u>2003</u>	<u>2002</u>
ASSETS		
Cash and cash equivalents	\$ 555,791	\$ 235,988
Receivables:		
Gaming fees	227,495	196,012
Sales taxes	117,588	102,987
Franchise taxes	76,887	82,207
Other	7,391	20,712
Due from other funds	57,742	697,356
Due from other governments	240,229	323,763
Prepaid expenses	<u>71,711</u>	<u>74,211</u>
Total assets	<u><u>\$ 1,354,834</u></u>	<u><u>\$ 1,733,236</u></u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Bank overdraft	\$ -	\$ 92,124
Accounts payable	151,515	81,628
Other liabilities	53,040	29,600
Due to other funds	93,998	923,964
Due to other governments	103,465	137,657
Advances from other funds	283,136	283,136
Accrued salaries	125,199	121,840
Deferred revenue	<u>278,288</u>	<u>310,295</u>
Total liabilities	<u>1,088,641</u>	<u>1,980,244</u>
FUND BALANCE		
Reserved for encumbrances	25,167	18,089
Unreserved	<u>241,026</u>	<u>(265,097)</u>
Total fund balance	<u>266,193</u>	<u>(247,008)</u>
Total liabilities and fund balance	<u><u>\$ 1,354,834</u></u>	<u><u>\$ 1,733,236</u></u>

CITY OF BAY ST. LOUIS, MISSISSIPPI
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With comparative totals for September 30, 2002)

	<u>2003</u>	<u>2002</u>
REVENUES		
Taxes		
Property	\$ 563,170	\$ 132,203
Gaming	2,927,862	2,639,841
Sales	1,270,282	1,186,129
Franchise	296,628	295,716
Licenses and permits	121,417	145,233
Intergovernmental	1,406,523	823,777
Fines and forfeitures	158,339	172,318
Charges for services	324,557	520,423
Interest	5,251	11,835
Miscellaneous	41,672	38,283
Total revenues	<u>7,115,701</u>	<u>5,965,758</u>
EXPENDITURES		
General government	1,454,723	1,676,619
Public safety	2,637,699	2,741,364
Public works	1,521,395	933,907
Parks and beautification	330,146	364,918
Health and welfare	48,778	48,935
Debt service:		
Principal retirement	485,954	464,618
Interest	208,712	232,835
Total expenditures	<u>6,687,407</u>	<u>6,463,196</u>
Excess (deficiency) of revenues over expenditures	<u>428,294</u>	<u>(497,438)</u>
OTHER FINANCING SOURCES		
Sale of assets	5,800	22,473
Total other financing sources	<u>5,800</u>	<u>22,473</u>
Excess (deficiency) of revenues and other financing sources over expenditures	434,094	(474,965)
Fund balance - October 1	(247,008)	227,957
Residual equity transfer in	98,660	-
Residual equity transfer out	<u>(19,553)</u>	<u>-</u>
Fund balance - September 30	<u>\$ 266,193</u>	<u>\$ (247,008)</u>

CAPITAL PROJECTS FUNDS

CITY OF BAY ST. LOUIS, MISSISSIPPI
CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	Capital Projects	Capital Improvements Bond	Totals (Memorandum Only)	
			2003	2002
ASSETS				
Cash and cash equivalents-restricted	\$ -	\$ 1,975,075	\$ 1,975,075	\$ 1,129
Due from other funds	-	-	-	841,343
Total assets	<u>\$ -</u>	<u>\$ 1,975,075</u>	<u>\$ 1,975,075</u>	<u>\$ 842,472</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Interest payable	\$ -	\$ 4,723	\$ 4,723	\$ -
Due to other funds	-	-	-	763,365
Total liabilities	<u>-</u>	<u>4,723</u>	<u>4,723</u>	<u>763,365</u>
FUND BALANCE				
Reserved for capital projects	<u>-</u>	<u>1,970,352</u>	<u>1,970,352</u>	<u>79,107</u>
Total liabilities and fund balance	<u>\$ -</u>	<u>\$ 1,975,075</u>	<u>\$ 1,975,075</u>	<u>\$ 842,472</u>

SCHEDULE 2-B

**CITY OF BAY ST. LOUIS, MISSISSIPPI
CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)**

	Capital Projects	Capital Improvements Bond	Totals (Memorandum Only)	
			2003	2002
REVENUES				
Interest	\$ -	\$ 1,247	\$ 1,247	\$ 220
EXPENDITURES				
Capital outlay	-	-	-	39,731
Excess (deficiency) of revenues over expenditures	-	1,247	1,247	(39,511)
OTHER FINANCING SOURCES				
Bond proceeds	-	1,969,105	1,969,105	-
Excess (deficiency) of revenues and other financing sources over expenditures	-	1,970,352	1,970,352	(39,511)
Fund balances - October 1	98,660	(19,553)	79,107	118,618
Residual equity transfer in	-	19,553	19,553	-
Residual equity transfer out	(98,660)	-	(98,660)	-
Fund balances - September 30	\$ -	\$ 1,970,352	\$ 1,970,352	\$ 79,107

ENTERPRISE FUND

CITY OF BAY ST. LOUIS, MISSISSIPPI
ENTERPRISE FUND - UTILITY FUND
BALANCE SHEET
SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	<u>2003</u>	<u>2002</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 276,387	\$ 79,359
Receivables, net of allowance for uncollectibles		
Billed accounts	321,376	308,701
Unbilled accounts	127,237	132,787
Other	128,396	7,763
Interest receivable	441	898
Prepaid expenses	41,667	30,722
Due from other funds	92,404	828,365
Inventory	126,259	82,830
	<u>1,114,167</u>	<u>1,471,425</u>
Total current assets		
RESTRICTED ASSETS		
Cash and cash equivalents		
Revenue bond and loan current debt service accounts	122,505	125,902
Debt service reserve account	499,259	499,259
Customer deposits	12,293	2,072
Advances to other funds	283,136	283,136
	<u>917,193</u>	<u>910,369</u>
Total restricted assets		
PROPERTY, PLANT AND EQUIPMENT		
Sewer, water and gas systems	11,016,340	11,016,340
Buildings	50,000	50,000
Building improvements	68,603	68,603
Equipment	335,758	329,578
Vehicles	263,511	263,511
Construction in progress	-	13,927
Total property, plant and equipment	<u>11,734,212</u>	<u>11,741,959</u>
Less: accumulated depreciation	<u>7,422,811</u>	<u>7,008,471</u>
	<u>4,311,401</u>	<u>4,733,488</u>
Net property, plant and equipment		
OTHER ASSETS		
Debt issuance costs, net of accumulated amortization of \$33,954 in 2003 and \$28,731 in 2002	<u>70,520</u>	<u>75,744</u>
Total assets	<u><u>\$ 6,413,281</u></u>	<u><u>\$ 7,191,026</u></u>

SCHEDULE 3

	<u>2003</u>	<u>2002</u>
LIABILITIES AND RETAINED EARNINGS		
CURRENT LIABILITIES		
(Payable from current assets)		
Accounts payable	\$ 200,589	\$ 160,416
Compensated absences payable	29,184	31,944
Due to other funds	48,818	669,276
Total current liabilities payable from current assets	<u>278,591</u>	<u>861,636</u>
CURRENT LIABILITIES		
(Payable from restricted assets)		
Special obligation bonds payable	230,000	220,000
Interest payable	65,005	68,745
Customer deposits	292,501	285,208
Total current liabilities payable from restricted assets	<u>587,506</u>	<u>573,953</u>
LONG-TERM LIABILITIES		
Special obligation bonds payable	4,460,000	4,690,000
Total liabilities	<u>5,326,097</u>	<u>6,125,589</u>
RETAINED EARNINGS		
Reserved for bond covenants	326,759	336,416
Unreserved	760,425	729,021
Total retained earnings	<u>1,087,184</u>	<u>1,065,437</u>
Total liabilities and retained earnings	<u><u>\$ 6,413,281</u></u>	<u><u>\$ 7,191,026</u></u>

FIDUCIARY FUNDS

CITY OF BAY ST. LOUIS, MISSISSIPPI
FIDUCIARY FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2003
(With comparative totals for September 30, 2002)

	Expendable Trust Fund	Agency Funds				Totals (Memorandum Only)	
	Unemployment Escrow	Tax Collector Clearing	Accounts Payable Clearing	Payroll Clearing	Land Redemption	2003	2002
ASSETS							
Cash and cash equivalents	\$ 16,321	\$ 4,737	\$ 77	\$ 37,175	\$ -	\$ 58,310	\$ 106,446
Due from other funds	1,469	-	983	49,020	-	51,472	141,238
Due from other governments	-	11,118	-	-	-	11,118	4,795
Total assets	<u>\$ 17,790</u>	<u>\$ 15,855</u>	<u>\$ 1,060</u>	<u>\$ 86,195</u>	<u>\$ -</u>	<u>\$ 120,900</u>	<u>\$ 252,479</u>
LIABILITIES AND FUND BALANCE							
LIABILITIES							
Other liabilities	\$ -	\$ -	\$ -	\$ 40,517	\$ -	\$ 40,517	\$ 43,082
Due to other funds	-	12,064	1,060	45,678	-	58,802	151,697
Due to other governments	-	3,791	-	-	-	3,791	39,910
Total liabilities	<u>-</u>	<u>15,855</u>	<u>1,060</u>	<u>86,195</u>	<u>-</u>	<u>103,110</u>	<u>234,689</u>
FUND BALANCE							
Reserved for unemployment benefits	<u>17,790</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,790</u>	<u>17,790</u>
Total liabilities and fund balance	<u>\$ 17,790</u>	<u>\$ 15,855</u>	<u>\$ 1,060</u>	<u>\$ 86,195</u>	<u>\$ -</u>	<u>\$ 120,900</u>	<u>\$ 252,479</u>

GENERAL FIXED ASSETS ACCOUNT GROUP

SCHEDULE 5

**CITY OF BAY ST. LOUIS, MISSISSIPPI
GENERAL FIXED ASSETS ACCOUNT GROUP
SCHEDULE OF GENERAL FIXED ASSETS - BY SOURCE
SEPTEMBER 30, 2003**

GENERAL FIXED ASSETS

Land	\$ 94,626
Buildings and improvements	2,628,892
Improvements other than buildings	8,342,656
Machinery and equipment	583,451
Vehicles	1,110,845
Construction in progress	<u>815,258</u>

Total general fixed assets	<u><u>\$ 13,575,728</u></u>
----------------------------	-----------------------------

INVESTMENT IN GENERAL FIXED ASSETS

	<u><u>\$ 13,575,728</u></u>
--	-----------------------------

GENERAL LONG-TERM DEBT ACCOUNT GROUP

**CITY OF BAY ST. LOUIS, MISSISSIPPI
GENERAL LONG-TERM DEBT ACCOUNT GROUP
STATEMENT OF GENERAL LONG-TERM DEBT
SEPTEMBER 30, 2003**

AMOUNT TO BE PROVIDED FOR DEBT SERVICE

Amount to be provided for retirement of bonds, notes and capital leases	\$ 5,726,494
Amount to be provided for accrued compensated absences	<u>217,355</u>
Total amount to be provided for debt service	<u><u>\$ 5,943,849</u></u>

**BONDS, NOTES, AND ACCRUED COMPENSATED
ABSENCES**

General obligation bonds	\$ 5,490,000
Bank and agency notes	100,000
Capital leases payable	136,494
Accrued compensated absences	<u>217,355</u>
Total bonds, notes, and accrued compensated absences	<u><u>\$ 5,943,849</u></u>

OTHER SUPPLEMENTAL INFORMATION

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE RECONCILING ORIGINAL AD VALOREM TAX ROLLS
TO FUND COLLECTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Assessed Value	Tax
ADJUSTED ASSESSED VALUATION		
City		
Realty	\$ 57,479,756	\$ 603,537
Personal - other than auto	7,649,591	80,321
Public utilities	4,543,052	47,702
Personal - auto and mobile home	10,813,204	113,539
	<u>80,485,603</u>	<u>845,099</u>
Total City at 10.50 mills	80,485,603	845,099
Less: Homestead exemption allowed	<u>(5,716,246)</u>	<u>(60,021)</u>
Total City	<u><u>\$ 74,769,357</u></u>	785,078
Add: Actual homestead reimbursements		20,979
Payments in lieu of taxes		8,732
Prior year tax collections		1,914
Penalties and interest on delinquent taxes		5,643
Property cleanup		600
Deduct: County collection fees withheld		(15,351)
Adjustments to land roll by Board order		<u>(12,737)</u>
Total to be accounted for		<u><u>\$ 794,858</u></u>
Net settled by County		\$ 762,810
Plus: Actual homestead reimbursements received from State of Mississippi		20,979
Personal property insolvencies		12,258
Property sold to state at tax sale		<u>802</u>
Total accounted for		<u><u>\$ 796,849</u></u>
Unlocated difference		<u><u>\$ (1,991)</u></u>

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF GENERAL LONG-TERM DEBT
SEPTEMBER 30, 2003

	Date of Original Issue	Original Bonded Debt	Interest Rate	Bonds-Notes Outstanding 10/1/2002
GENERAL OBLIGATION BONDS				
1996 General Obligation	8/1/1996	\$ 5,500,000	5% - 7%	\$ 3,830,000
2003 General Obligation	8/27/2003	2,000,000	2.75% -3.9%	-
BANK NOTE				
Fire truck and drainage projects	4/30/1999	500,000	4.43%	200,000
OBLIGATIONS UNDER CAPITAL LEASES				
Police cars	5/23/2001	<u>257,974</u>	5.17%	<u>182,448</u>
Total General Obligation Bonds, Notes, and Capital Leases		<u><u>\$ 8,257,974</u></u>		<u><u>\$ 4,212,448</u></u>

SCHEDULE 7-B

New Issues FYE 2003	Paid in FYE 2003	Bonds-Notes Outstanding 9/30/2003	Interest Paid FYE 2003	Maturities FYE 9/30/04		
				Principal	Interest	Total
\$ - 2,000,000	\$ 340,000 -	\$ 3,490,000 2,000,000	\$ 191,500 -	\$ 355,000 165,000	\$ 174,500 65,400	\$ 529,500 230,400
-	100,000	100,000	8,860	100,000	4,483	104,483
-	45,954	136,494	8,352	48,814	5,827	54,641
<u>\$ 2,000,000</u>	<u>\$ 485,954</u>	<u>\$ 5,726,494</u>	<u>\$ 208,712</u>	<u>\$ 668,814</u>	<u>\$ 250,210</u>	<u>\$ 919,024</u>

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF ENTERPRISE FUND BONDS AND NOTES
SEPTEMBER 30, 2003

	<u>Date of Original Issue</u>	<u>Original Bonded Debt</u>	<u>Interest Rate</u>	<u>Bonds-Notes Outstanding 10/1/2002</u>
NOTES				
1997 MS Development Bank Loan	4/1/1997	<u>\$ 5,500,000</u>	5% - 6.8%	<u>\$ 4,910,000</u>

SCHEDULE 7-C

New Issues FYE 2003	Paid in FYE 2003	Bonds-Notes Outstanding 9/30/2003	Interest Paid FYE 2003	Maturities FYE 9/30/04		
				Principal	Interest	Total
<u>\$ -</u>	<u>\$ 220,000</u>	<u>\$ 4,690,000</u>	<u>\$ 271,239</u>	<u>\$ 230,000</u>	<u>\$ 260,019</u>	<u>\$ 490,019</u>

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF COMPUTATION OF LEGAL DEBT MARGIN
SEPTEMBER 30, 2003

Authorized Debt Limit:	<u>15%</u>	<u>20%</u>
Assessed valuation for fiscal year ended September 30, 2002	\$ 80,485,603	\$ 12,072,840
Present debt subject to 15% limitation Bonded indebtedness	<u>(5,490,000)</u>	
Margin for further indebtedness (under 15% limitation)	<u><u>\$ 6,582,840</u></u>	
Present debt subject to 20% limitation (including debt subject only to 15% limitation)		<u>(5,726,494)</u>
Margin for further indebtedness (under 20% limitation)		<u><u>\$ 10,370,627</u></u>

Section 21-33-303 of Mississippi Code of Ordinances 1972 Annotated-Limitation of indebtedness as amended April 8, 1985, March 30, 1987, October 1, 1989, March 1, 1992, and July 1, 1996.

No municipality shall hereafter issue bonds secured by a pledge of its full faith and credit for the purposes authorized by law in an amount which, when added to the then outstanding bonded indebtedness of such municipality, shall exceed either (a) fifteen percent (15%) of the assessed value of the taxable property within such municipality, according to the last completed assessment for taxation, or (b) ten percent (10%) of the assessment upon which taxes were levied for its fiscal year ending September 30, 1984, whichever is greater. In computing such indebtedness, there may be deducted all bonds or other evidences of indebtedness, heretofore or hereafter issued, for school, water, sewage systems, gas, and light and power purposes, and for the construction of special improvements primarily chargeable to the property benefited, or for the purpose of paying the municipality's proportion of any betterment program, a portion of which is primarily chargeable to the property benefited. However, in no case shall any municipality contract any indebtedness which, when added to all of the outstanding general obligation indebtedness, both bonded and floating, shall exceed either (a) twenty percent (20%) of the assessed value of all taxable property within such municipality according to the last completed assessment for taxation or (b) fifteen percent (15%) of the assessment upon which taxes were levied for its fiscal year ending September 30, 1984, whichever is greater. Nothing herein contained shall be construed to apply to contract obligations in any form heretofore or hereafter incurred by any municipality which are subject to annual appropriations therefore or to bonds heretofore issued by any municipality for school purposes or to contract obligations in any form heretofore or hereafter incurred by any municipality which are payable exclusively from the revenues of any municipally-owned utility, or to bonds issued by any municipality under the provisions of Sections 57-1-1 through 57-1-51, or to any special assessment improvement bonds issued by any municipality under the provisions of Sections 21-41-1 through 21-41-53.

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

Department	Position	Number of Employees in Each Position
General Government	Mayor	1
	City Clerk	1
	City Council	5
	Comptroller	1
	Accounts Payable Clerk	1
	Payroll Clerk	1
	Purchasing Clerk	1
	Utility Supervisor	1
	Utility Clerks	2
	Receptionist	1
	Deputy Court Clerks	3
Public Works	Receptionists	2
	Building Supervisor	1
	Building Inspectors	2
Public Safety	Chief of Police	1
	Assistant Police Chief	1
	Lieutenants	3
	Detective Sergeants	2
	Sergeants	6
	Agents	2
	Agent Corporal	1
	Corporals	5
	Crime Analyst	1
	School Resource Officer	1
	Patrol Officers	7
	Reserve Patrol Officers	9
	Animal Warden	1
	Dispatchers	8
	Receptionists	3

All employees listed above are covered by a \$50,000 public official bond.

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

August 20, 2004

To the Members of the City Council
and the Honorable Edward A. Favre
City of Bay St. Louis
Bay St. Louis, Mississippi

We have audited the general purpose financial statements of the City of Bay St. Louis, Mississippi, as of and for the year ended September 30, 2003, and have issued our report thereon dated August 20, 2004, which was qualified because the City does not maintain adequate subsidiary fixed asset records documenting the existence and valuation of the City's assets in accordance with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Bay St. Louis, Mississippi's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2003-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Bay St. Louis, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-2 and 2003-3.

To the Members of the City Council
and the Honorable Edward A. Favre
Bay St. Louis, Mississippi
August 20, 2004

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described as items 2003-2 and 2003-3, to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the City of Bay St. Louis in a separate letter dated August 20, 2004.

This report is intended solely for the information and use of management, others within the organization, the City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

August 20, 2004

To the Members of the City Council
and the Honorable Edward A. Favre
City of Bay St. Louis
Bay St. Louis, Mississippi

Compliance

We have audited the compliance of the City of Bay St. Louis, Mississippi with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2003. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs (Schedule II). Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Bay St. Louis complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2003. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2003-4.

To the Members of the City Council
and the Honorable Edward A. Favre
Bay St. Louis, Mississippi
August 20, 2004

Internal Control Over Compliance

The management of the City of Bay St. Louis is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF BAY ST. LOUIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2003

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA or other Number	Pass- Through Grantor's Number	Program or Award Amount	Federal Expenditures
U.S. Department of Justice				
Edward Byrne Memorial State and Local Law Enforcement Discretionary Grants Program	16.580	N/A	\$ 222,311	\$ 79,082
Public Safety Partnership and Community Policing Program	16.710	N/A	203,790	60,427
<i>Passed Through the Mississippi State Department of Public Safety</i>				
Juvenile Accountability Incentive Block Grant	16.523	OJB2021	6,145	1,682
Local Law Enforcement Block Grants Program	16.592	2LB2021	2,800	2,291
Total U. S. Department of Justice			<u>435,046</u>	<u>143,482</u>
U.S. Department of Transportation				
<i>Passed Through the Mississippi Department of Transportation</i>				
Highway Planning and Construction	20.205	STP-7814-000(001)	1,185,779	559,428
<i>Passed Through the Mississippi State Department of Public Safety</i>				
State Community Highway Safety	20.600	3-SC-202-1	<u>25,000</u>	<u>24,250</u>
Total U. S. Department of Transportation			<u>1,210,779</u>	<u>583,678</u>
Federal Emergency Management Agency				
Assistance to Firefighters Grant Program	83.554	EMW-2002-FG-06624	46,808	46,808
<i>Passed Through the Mississippi Emergency Management Agency</i>				
Disaster Relief Grant	83.544	FEMA-1436-DR-MS	<u>21,916</u>	<u>15,443</u>
Total Federal Emergency Management Agency			<u>68,724</u>	<u>62,251</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE PROGRAMS			<u>\$ 1,714,549</u>	<u>\$ 789,411</u>

See Independent Auditors' Report

CITY OF BAY ST. LOUIS, MISSISSIPPI
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2003

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is included in the federal grant activity of the City of Bay St. Louis, Mississippi, (the City) and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2: NON-CASH AWARDS

The City did not receive any non-cash awards during the fiscal year ending September 30, 2003.

SCHEDULE II

**CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

SECTION 1: Summary of Auditors' Results**Financial Statements:**

- | | |
|--|------------------|
| 1. Type of auditors' report issued on the general purpose financial statements: | <u>Qualified</u> |
| 2. Material noncompliance relating to the general purpose financial statements? | <u>Yes</u> |
| 3. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | <u>Yes</u> |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | <u>No</u> |

Federal Awards:

- | | |
|--|--------------------|
| 4. Type of auditors' report issued on compliance for major federal programs: | <u>Unqualified</u> |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | <u>No</u> |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | <u>No</u> |
| 6. Any audit finding(s) reported as required by Section_.510(a) of Circular A-133? | <u>Yes</u> |
| 7. Federal program identified as major program: | |

CFDA
Number
20.205

Name of Federal Program or Cluster
U.S. Department of Transportation
Highway Planning and Construction

- | | |
|---|------------------|
| 8. The dollar threshold used to distinguish between type A and type B programs: | <u>\$300,000</u> |
| 9. Auditee qualified as a low-risk auditee? | <u>No</u> |

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

SECTION 2: Financial Statement Findings

2003-1 Finding

The new General Obligation Public Improvement Bonds, Series 2003 bond documents state that the bonds are to be payable out of and secured by an irrevocable pledge of the avails of a direct and continuing tax to be levied annually without limitation as to time, rate, or amount. The documents also state that the City will levy annually a special tax upon all taxable property within the geographical limits of the City adequate and sufficient to provide for the payment of the principal of and the interest on the Bonds as the same fall due. Further, the City is to set up a bond fund (bona fide debt service fund) to achieve the proper matching of the collection of taxes with the payment of debt service on the bonds.

Currently, the City has established a separate cash account for debt service but has not properly established a separate bond fund. Additionally, although the City increased its fiscal year 2004 tax levies to compensate for the bond payments, the approved levy did not designate that portion which represents the special levy assessed to pay the bonded debt.

Recommendation

We recommend that the City set up a debt service fund as required by the bond agreements. We also recommend that future tax levies clearly designate the special levy and that the taxes received on the special levy be deposited in the debt service fund as required by the bond agreement.

2003-2 Finding

The City, except for the Police and Fire Departments, does not maintain a detailed inventory of its fixed assets. Although the Police and Fire Departments keep an inventory, it is not reconciled to the general fixed asset account group. Mississippi Statutes and the *Municipal Audit and Accounting Guide* require that the City tag and maintain detail subsidiary records of its fixed assets and an annual inventory be held to verify custody. The City has not taken a complete inventory of its fixed assets nor has it maintained adequate accounting procedures and records for fixed assets that are essential to the protective custody of governmental property and required by accounting principles generally accepted in the United States of America. The City has not maintained complete accountability of its fixed assets, which could potentially lead to misappropriation.

Recommendation

We recommend that every effort be made to inventory, tag, and reconcile fixed assets with the amounts reported in the general ledger. We understand that the City is in the process of compiling a fixed asset inventory.

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

2003-3 Finding

While performing our audit procedures we noted that the Mayor's facsimile signature stamp is often used to sign dual signature checks. We further inquired as to the policies and procedures applicable to the use of the stamp for check signing. We understand that during fiscal year September 30, 2000, the Mayor's secretary maintained the signature stamp. However, subsequent to fiscal year September 30, 2000, the City Clerk and the Comptroller were both given one of the Mayor's facsimile signature stamps for use in check signing in the Mayor's absence upon the Mayor's direction and approval.

The purpose of the dual signature requirement on checks is to safeguard cash by requiring two independent signatures. We noted that the City Clerk and the Comptroller are both authorized signers on the checking accounts. Therefore, neither the City Clerk nor the Comptroller should have access to the Mayor's facsimile signature stamp.

Recommendation

We have been informed that effective May 17, 2004, City management has decided to restrict the Mayor's signature stamp for correspondence use only. We recommend that the City notify the bank that checks containing the Mayor's stamped signature should no longer be honored (excluding those checks issued prior to May 17, 2004).

SECTION 3: Federal Award Findings

2003-4 U.S. DEPARTMENT OF TRANSPORTATION
Highway Planning and Construction
CFDA # 20.205

Criteria:

Non-participating costs were not to be funded by federal funds and matching contributions held by the Mississippi Department of Transportation (MDOT). The Project Development Manual for Local Public Agencies states that non-participating costs should not be included in the progress estimate (CAD 001).

Condition:

The City of Bay St. Louis received federal funds and a portion of its advanced match for non-participating costs.

Questioned Costs:

\$27,919, which represents both known and likely costs.

SCHEDULE II
(Continued)

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

2003-4 U.S. DEPARTMENT OF TRANSPORTATION
Highway Planning and Construction
CFDA # 20.205
(Continued)

Context:

	84%	16%	Non-	
	Federal	Match	Participating	Total
Engineering costs excluding retainage (CAD 001 #1-#10)	\$ 77,003	\$ 14,667	\$ -	\$ 91,670
Construction costs excluding retainage (CAD 001 #1-#11)	470,890	89,693	27,919	588,502
	<u>\$ 547,893</u>	<u>\$ 104,360</u>	<u>\$ 27,919</u>	<u>680,172</u>
Amount reimbursed by MDOT				(680,172)
				<u>\$ -</u>

Effect:

The City of Bay St. Louis received \$27,919 too much related to CAD 001s submitted for the fiscal year ending September 30, 2003.

Cause:

The second, fourth, and sixth CAD 001 submitted to MDOT for reimbursement included an aggregate of \$7,282 (net of retainage) in non-participating costs as a separate line item on the CAD 001 clearly identifiable as non-participating costs. Non-participating costs were also shown on the contractor estimate recap sheet that accompanies the CAD 001. The CAD 001s were reviewed and approved by MDOT's project engineer and MDOT reimbursed the City for the entire CAD 001s including the non-participating costs. MDOT's project engineer noted the error during the review of the eighth CAD 001 submitted for reimbursement and the payment was reduced by \$7,282. The error correction was reversed by MDOT's project engineer during the review of the ninth CAD 001 and the City was repaid for the previous deduction.

The tenth CAD 001 submitted by the City for reimbursement included \$20,637 of non-participating costs on the participating cost line of the CAD 001. The contractor estimate recap sheet accompanying the CAD 001 showed the non-participating costs. The error was not detected during the review process and the CAD 001 was reimbursed in full by MDOT.

Recommendation:

The non-participating costs should not be included on the CAD 001 to eliminate the possibility of overpayment. Further, the City should contact MDOT in an effort to determine repayment terms related to the non-participating costs received in error.

SCHEDULE II
(Continued)

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

2003-4 U.S. DEPARTMENT OF TRANSPORTATION
Highway Planning and Construction
CFDA # 20.205
(Continued)

Management's response:

The City of Bay St. Louis has designated the Comptroller to recommend to the engineer not to include non-participating costs on the CAD 001 submissions. The Comptroller along with the engineer will work out repayment terms with MDOT for the non-participating reimbursements received in error. The Comptroller will review future payment requests to ensure that non-participating costs have not been included and will also review reimbursement payments received from MDOT to ensure that MDOT has only reimbursed the City of Bay St. Louis for participating costs. The City of Bay St. Louis will implement this policy immediately.



CORRECTIVE ACTION PLAN

Audit
Reference
Number

2003-4 The City of Bay St. Louis has designated the Comptroller to recommend to the engineer not to include non-participating costs on the CAD 001 submissions at all. The Comptroller along with the engineer will work out repayment terms with MDOT for non-participating reimbursements received by the City of Bay St. Louis in error. The Comptroller will review future payment requests to ensure that non-participating costs have not been included and will also review reimbursement payments received from MDOT to ensure that they have only reimbursed the City of Bay St. Louis for participating costs. The City of Bay St. Louis will implement this procedure immediately.

Name of Contact Person: Raymond E. Farrish, Comptroller

Date: June 28, 2004



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
THE OFFICE OF THE MISSISSIPPI STATE AUDITOR REQUIREMENTS**

August 20, 2004

To the Members of the City Council
and the Honorable Edward A. Favre
City of Bay St. Louis
Bay St. Louis, Mississippi

We have audited the general purpose financial statements of the City of Bay St. Louis, Mississippi, as of and for the year ended September 30, 2003, and have issued our report thereon dated August 20, 2004, which was qualified because the City does not maintain adequate subsidiary fixed asset records documenting the existence and valuation of the City's assets in accordance with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with audit standards generally accepted in the United States of America and, accordingly, included such tests of the accounting records and such other accounting procedures as we considered necessary in the circumstances.

As required by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the City's compliance with these requirements. Accordingly, we do not express such an opinion.

In connection with our audit, nothing came to our attention that caused us to believe the City of Bay St. Louis, Mississippi is not in compliance with the requirements of the Office of the State Auditor, as set forth in the Municipal Compliance Questionnaire, except as noted below.

Fixed Asset Inventory

The City of Bay St. Louis does not maintain subsidiary records documenting the existence and valuation of the City's assets and accordingly, all fixed assets have not been properly tagged as required by state statutes. The City is currently in the process of compiling a fixed asset inventory.

Publication

The City did publish the fiscal year 2003 tax levy; however, it was not published within ten days of adoption by the City Council as required by Mississippi State Code Section 21-33-47.

Privilege Licenses

We noted one instance out of ten applications tested in which the fee charged to applicants was based on the number of employees; however, we were unable to verify the accuracy of the amount assessed to the applicant because the number of employees was not disclosed on the application. Additionally, the fees on five of the ten applications tested were calculated incorrectly.

State Purchasing Laws

The City purchased equipment from a sole source vendor; however, documentation that the vendor was a sole source and board approval of the purchase was not noted in the minutes.

To the Members of the City Council
and the Honorable Edward A. Favre
Bay St. Louis, Mississippi
August 20, 2004

Unemployment Compensation Reserve

The City's unemployment compensation reserve was under-funded as of September 30, 2003. In accordance with state law, the 2% reserve requirement should be calculated on the next preceding year's covered wages and that the cash balance of the reserve should equal or exceed the calculated amount. The City calculated the 2% reserve requirement using current year wages and the cash balance did not reflect the City's calculated requirement.

Bonding Coverage

State law requires that before entering upon their duties, councilmen shall give bond of sufficient surety up to 5% of the sum of all municipal taxes shown by the assessment rolls and levies to have been collectible in the municipality for the year immediately preceding the commencement of the term of office with the exception that such bond shall not exceed \$100,000. The last election year was 2001; therefore, the fiscal year 2000 tax reconciliation should be used to calculate the bonding requirements. The sum of all municipal taxes shown by the assessment rolls and the levies to have been collectible in the municipality reported on the tax reconciliation for both City and School multiplied by five percent is approximately \$284,000. Currently, all Councilmen are covered under \$50,000 surety bond when the required bond coverage is \$100,000. Effective October 2003, the City obtained adequate bond coverage.

This report is intended solely for the information and use of management, others within the City, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.


ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi



August 20, 2004

The Members of the City
Council and the Honorable
Edward A. Favre
Bay St. Louis, Mississippi

In planning and performing our audit of the financial statements of the City of Bay St. Louis for the year ended September 30, 2003, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, misstatements due to error or fraud may occur and not be detected by such controls.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the comments identified as reportable conditions on the accompanying pages are also material weaknesses.

During our audit we also became aware of several matters that are opportunities for strengthening internal controls and operating efficiency.

The pages that accompany this letter summarize our comments and suggestions concerning the reportable conditions and other matters. We previously reported on the City's internal control in our report dated August 20, 2004. This letter does not affect our report dated August 20, 2004, on the financial statements of the City of Bay St. Louis, Mississippi.

The Members of the City
Council and the Honorable
Edward A. Favre
August 20, 2004
Page 2

The accompanying comments and recommendations are intended solely for the information and use of management, and others within the City and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We appreciate the opportunity to be of continued service to the City of Bay St. Louis and express our gratitude to the City Council and staff for their assistance in conducting our audit.


ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountant
Gulfport, Mississippi

REPORTABLE CONDITIONS-MATERIAL WEAKNESSES

Fixed Asset Records

The City, except for the Police and Fire Departments, does not maintain a detailed inventory of its fixed assets. Although the Police and Fire Departments keep an inventory, it is not reconciled to the general fixed asset account group. Mississippi Statutes and the Mississippi State Department of Audit's *Municipal Audit and Accounting Guide* require that the City tag and maintain detail subsidiary records of its fixed assets and an annual inventory be held to verify custody. The City has not taken a complete inventory of its fixed assets nor has it maintained adequate accounting procedures and records for fixed assets that are essential to the protective custody of governmental property and required by accounting principles generally accepted in the United States of America. The City has not maintained complete accountability of its fixed assets, which could potentially lead to misappropriation.

We recommend that every effort be made to inventory, tag, and reconcile fixed assets with the amounts reported in the general ledger. We understand that the City is beginning the process of preparing an inventory of fixed assets for fiscal year 2004. (See *GASB 34 Implementation* below.)

Signature Stamp

As discussed in the fiscal year 2002 letter to management, while performing our audit procedures we noted that the Mayor's facsimile signature stamp is often used to sign dual signature checks. We further inquired as to the policies and procedures applicable to the use of the stamp for check signing. Subsequent to fiscal year September 30, 2000, the City Clerk and the Comptroller were both given one of the Mayor's facsimile signature stamps for use in check signing in the Mayor's absence upon the Mayor's direction and approval. As a result, there are no controls that would prevent unauthorized use of the stamps.

The purpose of the dual signature requirement on checks is to safeguard cash by requiring two independent signatures. We noted that the City Clerk and the Comptroller are both authorized signers on the checking accounts. Therefore, neither the City Clerk nor the Comptroller should have access to the Mayor's facsimile signature stamp.

We have been informed that effective May 17, 2004, City management has decided to restrict the Mayor's signature stamp for correspondence use only. We recommend that the City notify the bank that checks containing the Mayor's stamped signature should no longer be honored (excluding those checks issued prior to May 17, 2004).

NON-COMPLIANCE

Bond Compliance

The bond documents for the new General Obligation Public Improvement Bonds, Series 2003, state that the bonds are to be payable out of and secured by an irrevocable pledge of the vails of a direct and continuing tax to be levied annually without limitation as to time, rate, or amount. The documents also state that the City will levy annually a special tax upon all taxable property within the geographical limits of the City sufficient to provide for the payment of the principal and interest on the Bonds as the same becomes due. Further, the City is to set up a bond fund (bona fide debt service fund) to achieve the proper matching of the collection of taxes with the payment of debt service on the bonds.

Currently, the City has established a separate cash account for debt service but has not properly established a separate bond fund. Additionally, although the City increased its fiscal year 2004 tax levies for the general fund to compensate for the bond payments, the approved levy did not designate that portion which represents the special levy assessed to pay the bonded debt. We recommend that the City set up a debt service fund as required by the bond agreements. We also recommend that future tax levies clearly designate the special debt service levy and that the taxes received on the special levy be deposited in the debt service fund as required by the bond agreement.

OTHER COMMENTS AND RECOMMENDATIONS

Utility Accounts Receivable

We noted that several utility receivable accounts with delinquent balances greater than 120 days were still open and receiving services. Through inquiry we determined that continued service is being allowed because a payment plan has been set up with the customer. However, further review indicated several instances where the customer had incurred current charges and no payment was made or where the payment made was only minimally higher than the current charge.

We understand that the City has established formal policies and procedures to be used in administering the installment agreements and monitoring cutoffs. We recommend that the City take extra steps to ensure that the policies and procedures are consistently applied. We caution the City against customizing installment agreements for each individual situation since this inevitably results in administrative problems. We recommend that a standard installment agreement be adopted for all customers.

Consistently performing cut-off procedures on a monthly basis will ensure that delinquent account balances are maintained at manageable levels. Customers will more likely have the means to pay if their delinquent accounts are kept at a manageable level, thereby requiring fewer installment agreements, which will result in more timely revenue to be used for water and sewer operations.

Change Orders

Our testing of the Green Meadow/Drinkwater Road project revealed that cost billed by and paid to the contractor related to “Quantity Adjustment No. 1” have exceeded the contract amount and a change order has not been submitted to the City to be approved by the board. We believe that a review process should be implemented that would identify costs exceeding original contract amounts and that payment should not be made until a change order has been submitted and approved. We recommend that the City implement policies and procedures that will ensure that all contractor invoices are carefully reviewed prior to payment, change orders are approved by responsible individuals and that the approval is adequately noted in the minutes.

Additional Claims

We noted one instance in which payment to the engineer for services related to the Green Meadow/Drinkwater Road project was not included on the docket or as part of additional claims and, therefore, was not approved by the board. We recommend that the City take extra care to ensure that all claims are properly approved by the board prior to payment.

MDOT Grant Documentation

During our testing, we noted that files related to the right of way acquisitions were not organized in a manner that would allow for easy access to research the documentation involved. We recommend that the City organize the files and review the files for completeness of all applicable items. At the end of the project, it is possible that MDOT may audit the project. If the files are not in order and complete, the City may not be able to substantiate its compliance with all areas of the grant, which could result in the City having to return a portion of the grant funds received.

Cash Management – MDOT Grant Funds.

The City’s policy regarding MDOT grant funds is to disburse payments to the engineer and contractor within a day or two of receiving reimbursement of costs from MDOT. During our Single Audit testing, we noted one instance in which the City waited twenty-three days to pay the engineering invoice associated with funds received from MDOT. We encourage the City to strictly enforce its established policy of paying the contractor/engineer immediately upon receipt of the funding. This will ensure that the City stays in compliance with the grant requirement to minimize the time lapse between receipt of the federal funds and the pay out of funds for program purposes.

MUNICIPAL COMPLIANCE

Unemployment Compensation Reserve

The City calculates its unemployment compensation reserve using current wages. Mississippi State Code Section 71-5-39 states that the balance in the unemployment compensation fund should equal or exceed 2% of the covered wages paid during the next preceding year. Additionally, we noted that the City does not transfer funds to the unemployment compensation reserve cash account, but rather adjusts the "Due from General Fund" account for any cash deficiencies.

We recommend that the City calculate the unemployment reserve requirement using the previous year's compensation (this can be done using the previous calendar year W-2 forms for each employee) and that actual cash be transferred to the unemployment reserve cash account to cover any deficiency noted. An alternative to maintaining a cash reserve is to obtain a bond for the equivalent amount required. We understand that in fiscal year 2004 the Comptroller recalculated the reserve requirements and properly funded the reserve.

Approval of the Tax Levy

Mississippi State Code Section 21-33-47 requires that the City set the tax levy by their regular meeting in September not later than ten days after final approval of the land assessment roll. In addition, the Code requires that the City publish the tax levy in a local newspaper at least one time within ten days after its adoption. In fiscal year 2003 the City published the tax levy thirteen days after its adoption. We recommend that the City review all publication requirements regularly to ensure compliance with State statutes.

Procurement Process

The City purchased equipment from a sole source vendor. However, documentation that the vendor was a sole source and board approval of the purchase was not noted in the minutes. In order to comply with state purchasing laws, we recommend that the City implement policies and procedures that will ensure that all sole source information and approval is properly documented in the minutes.

Privilege Licenses

Our test of privilege licenses revealed one instance in which the fee charged to applicants was based on the number of employees. However, we were unable to verify the accuracy of the amount assessed to the applicants because the number of employees was not disclosed on the application. Additionally, the fees on five of the ten applications tested were calculated incorrectly.

Bonding Requirements

As noted in the prior year, state law requires that before entering upon their duties, councilmen shall give bond of sufficient surety up to 5% of the sum of all municipal taxes shown by the assessment rolls and levies to have been collectible in the municipality for the year immediately preceding the commencement of the term of office with the exception that such bond shall not exceed \$100,000. The last election year was 2001; therefore, the fiscal year 2000 tax reconciliation should be used to calculate the bonding requirements. The sum of all municipal taxes shown by the assessment rolls and the levies to have been collectible in the municipality reported on the tax reconciliation for both City and School multiplied by five percent is approximately \$284,000. Currently, all Councilmen are covered under \$50,000 surety bond when the required bond coverage is \$100,000.

We recommend that the City increase the bonding coverage to \$100,000 per Councilman. Each election year, the City should calculate the required bond coverage to ensure that the City maintains compliance. We have been informed that the City obtained adequate bond coverage in October 2003.

MANAGEMENT FOCUS

Gas Consumption

Our testing of gas consumption and related expense indicated a \$56,893 unexplained difference. Specifically, approximately 12,000 mmbtu's of gas were purchased by the City which are no longer in inventory and do not appear to have been consumed by gas customers based on the City's consumption records. The difference represents approximately 8% of total gas costs when historically the City has experienced a 3-5% shrinkage in gas purchased. The variance not attributed to shrinkage represents a loss in revenue of approximately \$21,300-\$35,500.

As recommended in previous years, we strongly encourage City management to consider conducting an internal investigation of all gas usage and costs to ensure that gas usage is being captured and billed correctly and that there are no gas leaks that may be costing the City.

Compensated Absences

Currently, the City's in-house leave accruals are overstated because the individual accrued leave balances are not monitored to ensure that the hours accrued do not exceed the limits set forth in the employee handbook. Our calculations indicated an over-accrual of approximately \$28,000 as of September 30, 2003. We recommend that individual leave accruals be monitored on a regular basis to ensure that they do not exceed the hourly limits established by the City. Additionally, the City could provide quarterly leave reports to employees so that they can monitor and use accrued leave that would otherwise be lost.

Court Department

Over the past several years, there have been significant fluctuations in court fines and fees. Fiscal year 2003 court fines and fees are down \$19,242.70 or 12% from fiscal year 2002, which may indicate that the City's established controls and procedures are not operating properly. We recommend that the City consider hiring an independent consultant to review the current system to ensure that it is adequate and operating properly. We can provide the City with the name of a consultant who has provided similar services to other cities.

Cash Accounts

The City opened and closed several cash accounts throughout the year; however, Board approval authorizing the activity was not noted in the minutes. We recommend that the City establish policies and procedures to ensure that all changes to cash accounts are properly approved by the Board and that the approval be noted in the minutes.

GASB 34 Implementation

The City will be required to implement the new Governmental Accounting Standards Board (GASB) 34 reporting model in fiscal year ending September 30, 2004. The most significant effect of this implementation to the City will be to record and depreciate all of the City's fixed assets that have a remaining useful life as of October 1, 2003. The City needs to determine the economic lives of all the fixed assets not currently being depreciated and calculate the accumulated depreciation as of October 1, 2003 as though the assets had been depreciated since acquisition. Since the City is a Phase III implementer, the City has the option of not retroactively recording infrastructure. However, all infrastructure acquired after October 1, 2003 will need to be capitalized and depreciated.

Since the City does not currently have a detailed listing of fixed assets, which reconciles to the cost reported in the general fixed asset account group, implementation of the GASB 34 requirements will require a significant effort on the part of the City's staff in order to meet the GASB 34 implementation deadline. **Inability to meet the deadline will result in an adverse audit opinion on future financial statements.**

The required management discussion and analysis letter, which will be included in the fiscal year 2004 audit report and is the **responsibility of the City**, will include certain comparisons of current financial information to the prior year, which in this case will be the fiscal year 2003 information. As such, we further recommend that the City consider converting the September 30, 2003 financial statements to the new reporting model once the 2003 audit is completed.

There are consulting companies that specialize in completing the fixed asset conversions. Several other local municipalities have used the services of a consultant and the rates have been very reasonable. We can provide the City with the name of a consulting company upon request.

The Members of the City
Council and the Honorable
Edward A. Favre
August 20, 2004
Page 9

GASB 34 Implementation (Continued)

As stated in our prior years' letters to management, the implementation of GASB 34 will have a significant impact on the City's audit in both the year of implementation and the subsequent fiscal years. GASB 34 will require a completely new set of government-wide financial statements (prepared by the auditor) in addition to the current fund level financial statements, a management discussion and analysis (prepared by the City with assistance from the auditor), and conversion of existing account balances to allow for full accrual accounting. Therefore, the additional audit time and fees associated with this conversion are expected to increase approximately 20% to 30% for the year of implementation and between 10% and 15% for the years subsequent to implementation, based on our experience with Phase I and Phase II implementers. The majority of the additional time in the year of implementation will be related to the development of the new financial reporting model financial statements, along with reconciliations to the current reporting model. Additional audit procedures will be necessary for the year of implementation, as well as all subsequent years.